the Freeman

Ideas on Liberty

JANUARY 1979

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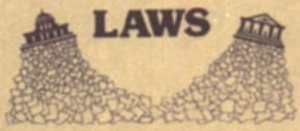

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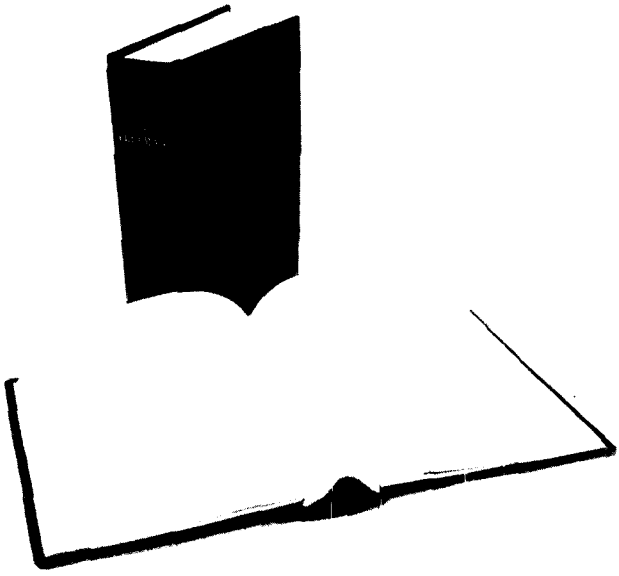

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION
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THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average $18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of $5.00 a year.

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Additional copies, postpaid: 3 for $1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

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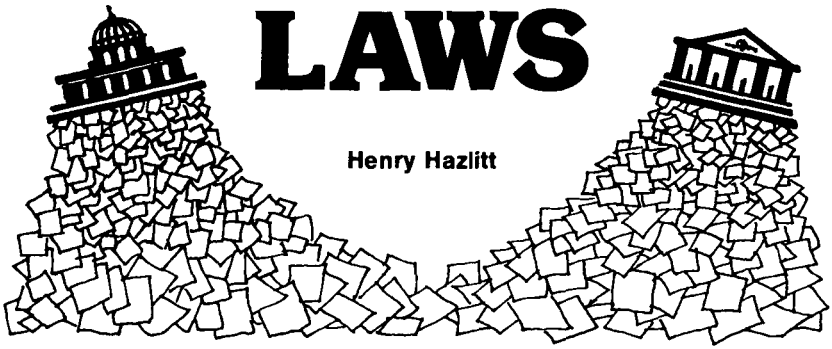
THE TORRENT OF LAWS



Henry Hazlitt

ALL OVER the United States, if you are reading this in a daylight hour, there is a ceaseless downpour of new laws. Every day some of us, somewhere, are being encumbered or shackled by still more restrictions. There are just too many laws.

But how do we tell how many laws are too many, and which ones are pernicious?

Let us begin with some elementary considerations. A law may be defined as an edict which either forbids you to do something or compels you to do something. Sometimes, it is true, it may be merely a guiding rule which tells you how to do something, or defines procedures or standards, like weights and measures. But such standard-setting laws are few in number. Most laws are prohibitions or compulsions—in short, commands.

Why are laws necessary? They are necessary, first of all, to prevent people from injuring or aggressing against their neighbors; to prevent theft and fraud, vandalism and violence. On the more positive side, they are necessary to lay down rules of action, so that others may know what to expect of us and we of others, so that we may anticipate each other's actions, keep out of each other's way, and work and act so far as possible in cooperation and harmony.

In a modern society, the traffic laws epitomize law in general. When they instruct us to keep on the right side, to drive within a specified

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times, Newsweek, The Freeman, Barron's, Human Events* and many others. The most recent of his numerous books is *The Inflation Crisis, and How to Resolve It.*

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speed limit on a given street or highway, to stop at a red light, to signal our intended turns, they may seem to an impatient driver to be restricting his liberty, to be preventing him from getting to his destination in minimum time. But because these restrictions apply to everyone else, they are, if they are well-conceived, helping not only him but all of us to get to our multitudinous destinations in the minimum time in which this can be done smoothly and safely.

How many traffic laws do we need? That is a difficult question to answer numerically. A general traffic code need consist only of a few simple rules, but they could all, it would seem, easily be embodied in a single statute. In any case, if the government confined itself to enacting a code of laws simply intended to prevent mutual aggression and to maintain peace and order, it is hard to see how such a code would run into any great number of laws.

England in 1854

Now let us look at the situation we actually face. In order to get an adequate picture, let us begin by comparing it with the situation as it existed more than a century ago in, for example, England. Let us take the year 1854, when the British philosopher, Herbert Spencer, wrote an essay on "Overlegislation." Some of us are apt to assume that the mid-nineteenth century in England was perhaps the time and place when a great nation came nearest to a laissez-faire regime. Spencer did not find it so. He found the country buried under needless legislation, and piling up more. With the change of a few details, his essay sounds as if it were written yesterday:

"Take up a daily newspaper and you will probably find a leader exposing the corruption, negligence, or mismanagement of some State-department. Cast your eye down the next column, and it is not unlikely that you will read proposals for an extension of State supervision. . . . Thus, while every day chronicles a failure, there every day reappears the belief that it needs but an Act of Parliament and a staff of officers, to effect any end desired."

Spencer went on to refer to mid-nineteenth-century England's "20,000 statutes, which it assumes all Englishmen to know, and which not one Englishman does know." He found officialdom systematically slow, stupid, extravagant, unadaptive, and corrupt; and yet given more and more duties to fulfill. Instead of being confined to its primary duty of protecting each individual against others, the State is asked in a hundred ways to protect each individual against himself—"against his own stupidity, his own idleness, his own improvidence, rashness, or other defect."

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"It is in the very nature of things," he continued, "that an agency employed for two purposes must fulfill both imperfectly. . . . And if an institution undertakes, not two functions, but a score—if a government, whose office it is to defend citizens against aggressors, foreign and domestic, engages also to disseminate Christianity, to administer charity, to teach children their lessons, to adjust prices of food, to inspect coal mines, to regulate railways, to superintend housebuilding, to arrange cab-fares, to look into people's stink-traps, to vaccinate their children, to send out emigrants, to prescribe hours of labor, to examine lodging-houses, to test the knowledge of mercantile captains, to provide public libraries, to read and authorize dramas, to inspect passenger-ships, to see that small dwellings are supplied with water, to regulate endless things from a banker's issues down to the boat-fares on the Serpentine—is it not manifest that its primary duty must be ill discharged in proportion to the multiplicity of affairs it busies itself with?"

Let us now pass over a century and a quarter, and see how our situation today compares with England's then.

It is the individual states that enact the laws that affect their citizens most often and most intimately in their daily living. A figure averaging the number of laws passed each year in each of the fifty states would be hard to compile on a continuing basis and perhaps mean less than particular examples. Let us take our two most populous states, New York and California. During 1975, 1976 and 1977, the New York state legislature passed, respectively, 870, 966 and 982 public laws. ("Private laws" are not included here, as these individually affect only a handful of people.) During these same three years the California state legislature passed 1280, 1487 and 1261 public laws.

Prohibitions or Rule-Changes

Now let us look at the implications of this. What does a new law do? It either puts a new prohibition or a new compulsion on each of us (or a large number of us), or it changes the rules under which we have hitherto been acting. So on the basis of these figures the citizens of individual states are being subjected to an average of about a thousand new prohibitions or rule-changes every year. No one is excused from not knowing what every one of these new laws commands. I leave it to the reader to picture what all this means in terms of human liberty.

But we have not even got to Federal laws. Supposedly, these are only needed to cover such matters as interstate commerce and are subject to severe limitations by the Con-

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stitution, so an innocent reader of that document might not see the need for many such laws. Though the Federal books were presumably blank when it started, the First Congress, which began on March 4, 1789, did not see the need for many Federal laws. It enacted only 94.

But then, as more and more laws were piled up, succeeding Congresses were convinced that more and more additional laws were necessary. The 85th Congress, which opened in January, 1957, enacted 1,009 laws; the 94th, which began in January, 1975, enacted 588. The ten Congresses during that period enacted an average of 735 laws each, which means an average of 367 new Federal laws a year—or one new law every day. The reader should be reminded that individually many of these laws ran to well over 100 pages each.

Congressional Promises

The mania for piling up additional laws—new compulsions or prohibitions or changes of the rules—seems to be endemic in our democratic process. Every two years, when a new Congress is chosen, the rival candidates are eager to convince the voters that they can shower more blessings upon them than their respective competitors. "There ought to be a law," they tell the voters, to forbid this or that, or to give you this or that. "If I am elected, I will introduce a bill"—to guarantee you this or that. So almost every Congressman introduces at least one bill with his name attached to it.

In the 94th Congress, which began in January, 1975, 3,899 bills were introduced in the Senate and 15,863 in the House—an average of 37 bills per member. These are by no means unusual figures. In the 93rd Congress, 4,260 bills were introduced in the Senate and 17,690 bills in the House. It is at least one stroke of luck for the country that only about one in every thirty or more such bills survives to enactment. But the individual Congressman who introduces it has made his point. He has "carried out his promise" to the voters.

It has been estimated that American legislative bodies ranging from city councils to Congress pass 150,000 new laws every year.[1] This total does not mean too much, because only a small section of the total applies to the residents of any given town or state. But a very meaningful figure would be the total number of live laws that still do apply to American residents of any given city or state.

Since its beginning Congress has enacted more than 40,000 laws. It is a fair assumption that most of these are still operative in some form.

When we come to the individual

[1] *Newsweek*, January 10, 1977.

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states we get to some really formidable figures. For Connecticut I am officially informed that: "We do not have information on the 'live' laws now on the books, but it is our understanding that there are about 3,500,000 words in the eleven volumes of the General Statutes."[2] The legislative authorities of California regret that so far as the number of "presently operative statutes" of that state are concerned, "no such enumeration is readily obtainable," though "most (but not all) enactments of the California legislature are codified in one of twenty-eight codes." And the Department of State of New York informs me that so far as the total of live laws on the state's books are concerned, "unfortunately, we don't have the answer to this question." So far as the "consolidated" (as distinguished from the "unconsolidated") laws are concerned, however, these can be found in "six volumes covering 6,891 pages." No one is allowed to plead ignorance of any of these state laws, of course, if he happens to violate one.

Local Ordinances

When we come to the number of town and city ordinances to which each of us is subject, it is difficult to say precisely what would be an average figure. But in Boston, for example, the Building Code alone contains about 500 pages; in addition, the City of Boston code consists of approximately 300 pages of ordinances and 300 pages of statutes. The Administrative Code of New York City consists of ten volumes running to a total of 8000 pages. There are also 23 thick volumes of ring binder notebooks containing the rules and regulations of city agencies published since 1967.

But on top of all of these laws—Federal, state, and local—is piled the greatest mountain of all—the endless orders, regulations and edicts issued by the Federal and state "independent agencies." There are eighty-nine separate Federal independent agencies listed in the Congressional Directory for 1977. These are in addition to the innumerable commissions, "offices," "services," and "administrations" listed under the twelve cabinet departments. As long ago as 1954 the Hoover Commission found that the Federal government embraced no fewer than 2,133 different functioning agencies, bureaus, departments, and divisions. And practically all of them were running "programs."

It was ten years ago that Delaware Congressman William V. Roth and his staff made an eight-month statistical study and came up with the finding that "no one, anywhere,

[2]Letter, June 7, 1978, from Agnes L. Kerr, Director, Administrative-Legislative Division, Office of the Secretary of State, State of Connecticut.

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knows exactly how many Federal programs there are"—or who is spending how much on what. According to the 1968 Roth study, the Federal government at that time had 1,571 identifiable programs. Questionnaires sent to various agencies drew spotty responses. Inquiries were made as to the purpose of some 478 programs in Health, Education and Welfare; only 21 responded.

In August 1978, Congressman Gene Taylor from Missouri, going through stacks of the Code of Federal Regulations, found that the Code ran to 19,789 pages in 1938, to 20,643 in 1958, to 73,149 in 1976, and calculated it would top 120,000 pages by the end of 1978.

Adding the Costs

How can we add up the countless costs, penalties, discouragements, delays, hazards, impediments, obstructions, that these orders place in the way of production and commerce?

Even if we give up the futile attempt to add up the government regulations numerically, we can still point to some of the costs and hardships that they impose on the taxpayer, the motorist, the businessman, the homeowner, the consumer, the worker, the investor, and the nation as a whole. In the July *Tax Review* of 1978, published by the Tax Foundation of New York, Murray L. Weidenbaum, a former Assistant Secretary of the Treasury, has detailed some of these costs:

- The outlays of 41 regulatory agencies are estimated to have increased from $2.2 billion in the fiscal year 1974 to $4.8 billion in fiscal 1979, a growth of 115 per cent over the five-year period.
- Federally mandated safety and environmental features increased the price of the average passenger automobile by $666 in 1978.
- There are over 4,400 different Federal forms that the private sector must fill out each year. That takes 143 million man hours. The Federal Paperwork Commission recently estimated that the total cost of Federal paperwork imposed on private industry ranges from $25 billion to $32 billion a year, and that "a substantial portion of this cost is unnecessary."
- Regulatory requirements imposed by Federal, state, and local governments are adding between $1,500 and $2,500 to the cost of a typical new house.
- On the basis of a conservative estimating procedure, the aggregate cost of complying with Federal regulation came to $62.9 billion in 1976, or over $300 for each man, woman and child in the United States. On the same basis, these costs may have reached $96.7 billion in the fiscal year ending September 30, 1978.
- The minimum wage law has

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priced hundreds of thousands of people out of the labor markets. One increase alone has been shown, on the basis of careful research, to have reduced teenage employment by 225,000.

- Approximately $10 billion of new private capital spending is devoted each year to meeting governmentally-mandated environmental, safety, and similar regulations rather than being invested in profit-making projects. Edward Denison of the Brookings Institution has estimated that in recent years these deflections of private investment from productive uses have resulted in a loss of approximately one-fourth of the potential annual increase in productivity.
- The nation as a whole feels the effect of government regulation in a reduced rate of innovation and in many other ways. The adverse consequences of government intervention in business decision-making range from a slowdown in the availability of new pharmaceutical products to the cancellation of numerous small pension plans.

Congressman Gene Taylor, whose figures on the extent of the Code of Federal Regulations I have previously cited, declares: "The cost imposed on the American economy by federal regulatory activity is now more than $60 billion per year. This serves to drive up the cost of consumer items, harasses small businessmen, fuels inflation, and increases the tax burden on the individual citizen."

An Ominous Trend

Suppose we turn back, from our survey of the present enormous power and control now exercised by government, to a look at its growth since 1854 in England when Herbert Spencer was already expressing his alarm at the extent of that control. If the reader will glance down the list of the interferences that Spencer was then deploring, he will see that our own government is still engaged in all of them, or their equivalent (with the exception only of disseminating Christianity and sending out emigrants), but has added literally hundreds more.

In 1977 The Conference Board of New York was referring to some of that year's economic interventions: price and income controls; limitations on profits; growing representation of workers and government on company boards of directors; statutory wage hikes; credit limitations; foreign exchange and import controls; limitations on foreign ownership; rent controls and subsidies; regulations on land-use planning; environmental, safety and consumer protection regulations; antitrust laws; direct and indirect taxes; and government ownership. But the list could have been indefinitely extended.

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There are two or three ways of trying to measure the size or growth of government quantitatively. One index is the number of people that it wholly or partly supports. In 1940 all American governments, Federal, state and local, were employing 4,474,000 people. In 1977, the number was 14,624,000. The Federal government alone, in 1978, employed 2,066,000 persons in its armed forces and 1,930,100 in full-time permanent civilian employment. In addition, it was making Social Security payments to some 33 million persons, and the Congressional Budget Office was estimating that about 44 million were receiving some form of welfare aid.

The annual expenditures of the Federal government tell a succinct story. If we take them at ten-year intervals since 1929, we get the following result:

Year	Expenditures
1929	$ 3.1 billion
1939	8.8 "
1949	38.8 "
1959	92.1 "
1969	184.5 "
1979	487.5 "

If any forecaster had dared to predict in 1929 that fifty years later the Federal government would be spending nearly 160 times as much in dollars in a single year (or 43 times as much in "real" terms), nobody would have believed him. By such a comparison, we have had a 4,200 per cent growth in the Federal government since 1929.

A Bewildering Mass of Government Interventions

Some readers may object that it is meaningless to complain about the mere number of laws; that we should carefully separate the "good" laws from the "bad," and deplore only the latter. What this objection overlooks is that the mere multiplication and proliferation of laws is itself a major evil. Every unnecessary law is itself bound to be pernicious. And almost all laws that interfere with the functioning of the free market tend to delay or prevent necessary readjustments in the balance of production and consumption and to have other consequences opposite to those that the framers intended. When the rules of the game are being changed every day, when the totality of laws and regulations reaches the tens of thousands and the hundreds of thousands, the number of legislative blunders must multiply far more than proportionately. How is it possible to talk of retaining our liberties, for example, when collectively we are subjected not only to thousands of prohibitions and compulsions but to daily increasing prohibitions and compulsions?

More than forty years ago the

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Swedish economist Gustav Cassell was warning: "The leadership of the state in economic affairs . . . is necessarily connected with a bewildering mass of governmental interferences of a steadily cumulative nature. The arbitrariness, the mistakes and the inevitable contradictions of such a polity will, as daily experience shows, only strengthen the demand for a more rational coordination of the different measures and, therefore, for unified leadership. For this reason planned economy will always tend to develop into dictatorship."

Whatever the outcome may be, the future seems ominous. By whatever standard we measure it—the number of laws, the rate at which new ones are enacted, the multiplication of bureaus and agencies, the number of officeholders, pensioners, and relief-recipients the taxpayer is forced to support, the total or relative tax load, the total or per-capita expenditures—there has been an accelerative growth in the size, arbitrary power, and incursion of government, and in the new prohibitions, compulsions, and costs it keeps imposing upon us all.

Self-Discipline

AS I GROW OLDER, it becomes increasingly distasteful to me to impose my will upon any being. With the passing of the years, I have discovered that I have quite enough to do in disciplining myself, my thoughts and emotions and impulses—in keeping my own house in order. Self-discipline is the only kind that is of much worth. So long as we are self-disciplined we are free. When we must be disciplined by others, or are called upon to discipline others, we fall into one kind of bondage or another; in the first case we are held down by others, in the second case we are pulled down by others.

IDEAS ON LIBERTY

The lust for power is the most pernicious of human weaknesses, the cause of more misery than any other. Power through political position, power through social status, power through wealth, power over our children, power over our employees, power over our domestic animals—is not the craving for any of these a manifestation of the same spiritual frailty? The enlightened man seeks to guide others by rational persuasion, by example; by the contagion of his enthusiasm; he shrinks in spiritual stature when he must resort to compulsion. Although we are sometimes forced to use force, we should for our spirit's sake avoid such occasions to the limit of our ability. Humility is a virtue difficult to define, and the attempt to cultivate it has led to some strange paradoxes. But if we mean by humility reluctance to impose our will upon others, it is one of the foremost among all of the moral virtues.

ALEXANDER F. SKUTCH,
"Animal Friends, Dependent and Free," *Nature Magazine*, March 1952

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Alejandro Chafuen

War Without End

EVERY DAY of the year acts of terrorism are striking fear into the hearts of innocent people. Commercial airliners are hijacked with hundreds of people aboard, hostages are taken, private property is destroyed, and political foes are murdered. In the U.S. alone in 1975, a total of 1313 bombings were recorded, killing 69 people and injuring 326.[1]

Terrorism is threatening the social, political and economic order of Western societies. Terrorists attack the very system of peace that promotes social cooperation and division of labor, the system that offers the highest levels of comfort and well-being man has ever enjoyed. They strike in small groups like the Charles Manson family, or in regimental strength, like the guerrilla troops in the Middle East, Africa and South America.

Some terrorists might be classed simply as common criminals who indulge in unlawful activity, commit violations for which punishment is imposed. The guerrilla movement welcomes such recruits who faithfully execute orders of destruction. But there is a risk that they may cause problems of discipline and may embarrass the movement through senseless acts of violence that are devoid of any ideological justification.

The world leaders of terrorism do not seek destruction for its own sake. They aim to destroy the private property order and build on its ruin a political command order. But they freely make use of the ever-

Mr. Chafuen has been awarded a scholarship by the *Centro de Estudios sobre la Libertad* in Argentina for special study in economics under Dr. Hans Sennholz at Grove City College, Pennsylvania.

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willing criminal element of society which they seek to indoctrinate and organize in the service of "the cause." The writings of the great leaders of world communism reveal their deep concern about unprincipled guerrilla action. V. I. Lenin, the Russian revolutionary and first premier of the U.S.S.R., repeatedly warned against it:

> We would not for one moment assert that individual strokes of heroism are of no importance at all. But it is our duty to utter a strong warning against devoting all attention to terror, against regarding it as the principal method of struggle, as so many at the present time are inclined to do. Terror can never become the regular means of warfare; at best, it can only be of use as one of the methods of a final onslaught.[2]

> It is asserted that partisan actions lower the class-conscious proletariat to the level of drunkards and bums. This is correct. But from this follows only that the party of the proletariat never should consider partisan warfare to be its only or even its chief means of struggle. This particular technique must be integrated with other tactics and be in harmony with the most important methods of combat. Partisan warfare should be ennobled by the enlightening and organizing influence of socialism.[3]

Mao Tse-tung, the chief theorist of the Chinese Revolution and party chairman, frequently reminded his guerrillas of the importance of party discipline and central leadership. In the words of the Chairman: "Unorganized guerrilla warfare cannot contribute to victory and those who attack the movement as a combination of banditry and anarchism do not understand the nature of guerrilla action."[4]

Leon Trotsky, the Russian revolutionist and theorist of worldwide revolution, openly called for terrorism:

> The revolution "logically" does not demand terrorism, just as "logically" it does not demand an armed insurrection. What a profound commonplace! But the revolution does require of the revolutionary class that it should attain its ends by all methods at its disposal—if necessary, by an armed rising; if required, by terrorism.[5]

> . . . the first condition of salvation is to tear the weapons of domination out of the hands of the bourgeoisie. It is hopeless to think of a peaceful arrival to power while the bourgeoisie retains in its hands all the apparatus of power. . . . There is only one way: to seize power, taking away from the bourgeoisie the material apparatus of government.[6]

The Ideological Foundation

Why should Marxian terrorists want to seize all political and economic power? They are convinced that capitalism is unjust, that it exploits the working people for the benefit of property owners. It is unjust that some people own great wealth while others linger in poverty and despair.

The terrorists hold to a vague objective theory of value according to

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which all economic exchange ought to be made objectively so that everyone gets his "fair share."

They are confident that the future belongs to them and that socialism is coming with the inevitability of natural law.

They see themselves as the vanguard of the coming age.

And finally, they are deeply convinced that socialism will not only eliminate all social injustice, but also will bring greater material well-being to all.

We need not search here for the roots of these ideas. They were planted by the revolutionaries and social reformers of the 19th century. But how do they grow to bear such violent fruit as terrorism?

In the U.S., the notion of injustice in the capitalistic system has gained millions of devotees. The majority of Americans are clamoring for social welfare and economic transfer in order to alleviate the plight of the poor. They are guided not only by economic notions, but also by religious doctrines and concepts. Many clergymen piously support the notion that everyone has an inalienable right to a "decent" life and a "decent" home. The state is responsible for a decent minimum wage, minimum health care, education, and so on. Let anyone with doubts about the ideological trend ask himself this simple question: What are the chances in the coming election for any candidate promising cuts in social spending? Many people are demanding reduction of taxes. But who is asking for reduction in social programs?

Equalizing Incomes

The revolutionaries make use of the religious belief that every worker is useful to society and that everyone has the same opportunity for attaining heaven. They conclude that the garbage collector is as useful to society as the engineer or the doctor, and thus entitled to the same income. Admittedly, they all are equal in the sense that all are useful. But they do not render equal services. It is one thing to believe that the Creator has given everyone an equal right for attaining heaven. It is quite different to assert that everyone contributes equally to the material well-being of society.

Marxian terrorists are convinced that economic value is imparted solely by physical labor, that to the laborer belong the fruits of all economic activity—wages, interest, profits, or whatever. Otherwise, someone is taking what rightly belongs to the worker. Most people sympathize with this notion because they are convinced that they are getting less than they deserve. Therefore, they are willing and ready to embrace the exploitation theory.

Although the terrorists have not

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yet become popular "heroes" in the U.S., they certainly are no ordinary criminals. Youths of America still admire their athletes, the baseball and football heroes. But the press carefully reports the achievements of the international "liberation movements," thereby introducing terrorist heroes to the American public.

All over the world college students display posters of "Che" Guevara and Salvador Allende next to the Christian cross. There is little awareness that "Che" never found popular support for his attempt at conquering Bolivia; the peasants rejected him and few, if any, ever joined his liberation army.

The terrorist activity in the United States is still in its first stage, the ideological stage. The people are unaware that an ideological battle is raging over the hearts and minds of their youth. The battle is fought in the schools, churches, and homes.

In Germany, a recent poll of students at Heidelberg University showed that most extreme left-wing students come from educated middle-class backgrounds. They grew up at home, enjoyed all modern conveniences and high standards of living, and were accustomed to a paternalistic society. They received according to middle-class necessity and contributed according to ability, which was very little. They were taught in school and on television that their fathers are exploiters who are feasting on the sweat and blood of the working man. Can it be surprising that children of wealthy bankers and industrialists are eager to rebel against their parents?

In Argentina, the sons of a wealthy businessman recently organized their father's kidnaping. Other children placed bombs in their parents' bedroom. Such acts seem inconceivable until one discovers that the director of the state university nursery school was a guerrilla leader.

Seeds of Conflict

In order to launch the revolution, terrorists are planting the seeds of conflict in society. Social conflict is their road to victory. They are spreading false doctrines of conflict and clamoring for a gradual realization of socialism as Karl Marx had envisioned it in the *Communist Manifesto.* This is how Leonard Read describes the procedure:

> Were I a loyal Russian devoted to the U.S.S.R.—Union of Soviet *Socialist* Republics—and determined to overcome, subvert, and absorb the U.S.A., what would my tactic be? Drop hydrogen bombs? Probably not! That tactic would be resisted as would an invading army. What then? Would I not try to outmaneuver resistance by attractively phrasing and propagandizing the ideas of socialism? I'd play upon such themes as "From each according to his ability, to each according to his need." How would I

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measure my success? By the extent to which the people of the U.S. adopted my creed, the ten points of the *Communist Manifesto*.[7]

The revolutionaries hold to their type of justice: "to receive according to what we need, according to our necessities." Their concept is diametrically opposed to that of the private property order: "to receive according to what we are entitled; and we are entitled only to what others want to give us freely in exchange for what we give in return."

Only one of these definitions can be correct. What are our necessities? If we could have an objective scale of necessities, then we could possibly find an answer. If economic goods were available in abundance, we could satisfy all our wants. But nature did not provide us with an infinite supply of material goods and services. The private property order cannot be blamed for this natural scarcity. As long as nature is meager and miserly, which forces man to value his provisions, voluntary exchange is the only fair and equitable distribution. When we recognize that economic goods are valuable and that we must give something in exchange, the exploitation theory and the labor theory of value lose any rational justification. In the market order a businessman must pay a wage equal to the worker's contribution in order to attract labor. Economists call this the worker's marginal productivity. If a given employer refuses to bid that much, other employers would be willing to hire the worker in order to increase their profits.

It is difficult to argue with terrorists who sincerely believe that they are an enlightened minority. They cannot blame God for the world of scarcity, so they blame "evil" individuals and their economic order for man's limitations. Man lingers in poverty because man does not behave as he should. But the revolutionaries aim to change evil men; they aim to save mankind.

Is socialism inevitable?

Its followers are convinced that they will achieve the utopian maxim "From each according to his ability, to each according to his need." They are clinging to their beliefs, although more than sixty years have passed since the Russian Revolution and the Russian people were supposed to create the Proletarian paradise. And yet, the Russian people continue to linger in poverty and despair.

It is ideas that cause man to act. And action makes history. The coming of socialism depends on ideas. Whose ideas? Our ideas. We need to study the numerous fallacies that support socialism. But above all, we must learn to appreciate man's work and achievement when he is allowed to be free.

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The Battle Is Ideological

When terrorism is disrupting economic life and jeopardizing law and order, the state, which is social authority with power to enforce its laws, seeks to reassert itself. It mobilizes its police power and may call on its armed forces to crush the terror. But the application of brute force rests on the ideological assumption that the policemen and soldiers approve of the system they are supposed to defend. Without this approval, which grows from an understanding of the private property order, they cannot be expected to function. Why should they risk their lives obeying orders to defend a system they despise? Why should they confront the terrorists if they themselves are tempted to commit acts of terrorism? The apparatus of state disintegrates and all resistance ceases when police and military join the revolutionaries.

When the state enjoys the popular support to prevail over the terrorists, the latter usually seek and receive international reinforcement. But this international support constitutes much less a threat to society than does the ideological attack at home. National considerations predispose people against foreign ideologues and their objectives. Surely, ideas have no nationality, but people tend to relate alien ideas to foreigners. Mao Tse-tung made use of this psychological principle to wage war on the Japanese and find supporters for his movement. The Cubans and the Russians are facing the same problem today in Africa—they are foreigners.

The war against terrorism is a war without end. This ideological struggle occurs in the classrooms, in the churches, in the press, on radio and television, and on the floors of Congress. Every day the forces of individual freedom and the private property order are engaging the forces of pragmatism and the political command order. They are battling for the minds of men.

—FOOTNOTES—

[1]Encyclopedia Britannica *Book of the Year,* 1977, p. 218.

[2]V. I. Lenin, *Selected Works* (New York: International Publishers, 1943), vol. II, p. 17.

[3]Lenin, "The Guerrilla Warfare," Sept., 1906, in *Marx, Engels, and Marxism,* 7th rev. ed. (Moscow: Progress Publishers, 1965).

[4]Mao Tse-tung, *On Guerrilla Warfare* (New York: F. Praeger, 1961), p. 45.

[5]Leon Trotsky, *Terrorism and Communism,* paperback ed. (Ann Arbor: University of Michigan Press, 1961), p. 58.

[6]*Ibid.*, p. 36.

[7]Leonard E. Read, *Vision* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, Inc., 1978), p. 82.

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World in the Grip of an Idea

Clarence B. Carson

25. The Cold War: Terrorizing Many Lands

THE SPREAD of communism around the world is preceded and accompanied by the spread of terror. Even that way of saying it does not put it as directly as it can be stated. The spread of communism *is* the spread of terror.

Terror is not incidental to communism; it is essential and organic. Indeed, terror is the *modus operandi* of revolutionary socialism. Those who will to believe in the possibilities of the revolution of our age hope that it is incidental. Apologists for communism—and they are legion—attempt to make it appear incidental. Terror was justified, they will say, because of the terror of the regime against which it was used. The terror of a communist regime arises from the history of brutal governments which have beset particular peoples in their past. Terror is made necessary by the recalcitrance of the opposition. Tales of the terror are either fabricated or greatly exaggerated by those who hate the new regime. (This, they said, of the White Russians, of the Nationalist Chinese, of Cuban emigrants, and so on.) But, above

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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all, apologists for communism make the terror appear incidental by treating it as isolated incidents rather than the patterned behavior that emerges when it is surveyed whole.

Two Faces of Communism

They are assisted in this by communist regimes. Communism is Janus-faced—two-faced—as was suggested earlier in this work. One face may well be called the Ceremonial Face, the carefully conceived and made-up face presented to the world. It is the face that bespeaks regular government, democratic elections, government provided free schools, free medical care, subsidized culture, and so on. It is the face presented by carefully engineered tours for foreign visitors. It is the face of parliaments, written constitutions, cultural achievements, housing projects, prosperous collective farms, of orderly crowds, and contented people. It is the face of justice sought and on the way to being attained, the face which draws recruits from among intellectuals around the world. All these things comprise the facade of communism.

The other face is concealed, or partially concealed, most of the time. It is the Face of Terror, a terror which outruns the imagination in conceiving it and before which many prefer to avert their eyes. Whittaker Chambers suggested that it is a terror the like of which the world had never experienced.

> Other ages have known a terror equal to, or a little more than equal to, their powers to endure it. . . . Other ages have known a frightfulness equal to their imagination in inflicting or enduring it. Ours is the first age in which the havoc that men wreak on men has outrun the imagination, which can no longer cope with the plain reality and turns away, helpless, exhausted, and incredulous. . . .
>
> Ours is the first age in history in which duly constituted governments, duly recognized by others calling themselves civilized, practise the extermination of their own people by millions, as a matter of calculated policy. Within [our] lifetime . . . , the Soviet government . . . exterminated so many of its people that it did not dare publish the census figures. . . . The same government decreed, because its peasants were hiding their grain, that they should be starved to death. So they were, from three to six million of them.[1]

That, however, was but one of the cores of the terror stalking the earth.

Terror Undergirds Power

Terror, I say, is essential to communism. It is essential both to the gaining and exercising of power by communists. Communism is a power theory, and undergirding that power is terror. It is not simply that communism entails rule by a tiny minority. All rule, excepting that in

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a direct democracy, perhaps, is rule over the majority by a minority. But communism lacks accepted sanctions for its rule. Its basic theory denies validity to government and thereby any sanction for the exercise of its authority or use of force. Its thrust to transformation pits it against the populace at large; they could only sanction it by willing their own destruction. Its sanction is only that it rules, and it rules by terror.

It may be feasible to divide the terror that stalks the earth in the wake of the spread of communism into four stages. It may be, that is, because our knowledge of communism in action is still fragmentary. Much communist activity is clandestine and secret. As yet, no entrenched communist power has fallen so that its secrets might have come into the hands of a conqueror. (Such as did so many of those of the Nazis, for example.) Thus, we rely on the reports of defectors, immigrants, counter-espionage, revelations (such as those made by Khrushchev about Stalin's rule), deductions from official pronouncements and documents, and surmise, for our knowledge of the inner workings and plans of communists.

No Precise Formula

The evidence certainly points to the fact that much of the terror is planned and coordinated. Yet there are gaps in our knowledge as to whether or not it is done according to some overall plan. Moreover, there is often no way to determine which acts of terror associated with the international spread of communism are a part of a plan and which are the result of local initiative, which are by communists and which not, or whether the motives of those who commit the acts are the same as those who order or approve of them. In short, if there is a "science" of communist terrorism, it has not become public knowledge.

Even so, a pattern of terror can be discerned from the history of communism. That it was a universal pattern did not begin to become clear until the 1950s and 1960s. Prior to World War II communism-in-power had occurred only in the Soviet Union. The Communist International, the instrument for the spread of communism, was controlled by the Kremlin leaders. Hence, the pattern was the Soviet pattern, not necessarily the communist pattern. But with the emergence of other communist powers, the pattern has been much the same, pointing toward the conclusion that it is a communist pattern. This does not mean that the use of terror falls into a rigid and unvarying configuration. On the contrary, all sorts of variations occur in it. It is rather that if it be assumed that terror is organic to communism,

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that it serves certain broad and general purposes, then the general pattern is discernible.

At any rate, there is a discernible pattern of at least four stages of the terror. They frequently overlap one another, and excepting for the second stage there is no predicting in advance how or when they will occur.

The Disordering Terror

The first stage of the terror may well be called The Disordering Terror. It encompasses all that terror which precedes the seizure of power by the communists. It may last for months, for years, for decades, or for as long as it takes to bring communism to power in a given land.

It is disordering because the general object—as distinct from the particular object of any act—is to create the conditions of disorder which will be favorable for communists to seize power. Marx taught that the conditions would be right for revolution when capitalism had reached the stage of development in which the lot of the workers became intolerable. It followed that revolution would come first in what were then the most advanced countries. Lenin altered this doctrine by demonstrating that the conditions were right for revolution when disorder had proceeded to the disintegrating point. Hitler's seizure of power demonstrated the same point, as did that of Mussolini. Communism spreads by bringing about conditions of disorder. Terror is the most direct means of producing confusion, arousing fear and distrust, and challenging the ruling government.

Specific dramatic examples may best illustrate this stage of the terror. Take the case of Vietnam. The Republic of Vietnam (South Vietnam) was organized as an independent country in 1954. There were communists in South Vietnam, of course, as there were throughout Indochina. At first, they went underground, but they soon began to be heard of by assassinations and became known as the Viet Cong (Vietnamese Communists). "Between 1957 and 1959 the Viet Cong killed sixty-five village chiefs who had tried to resist Communist pressures." In 1959 radio Hanoi (the voice of the Communist government in North Vietnam) proclaimed the desirability of destroying the Diem regime in South Vietnam. In 1960, the National Liberation Front was organized at the instance of the Communist party of North Vietnam. In "1960 and 1961 village officials, schoolteachers, and health workers were being murdered by the thousands. In 1960, through harassment, plus the murder of teachers and sabotage of buildings, the Viet Cong succeeded in closing two hundred primary schools in South Vietnam, interrupting the

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education of more than twenty-five thousand students. And this is when the terror was just beginning to explode with full force, warning of horrors to come."[2]

There is not space here to detail the story of the terror that eventually engulfed South Vietnam and sent shocks outward into much of the rest of the world. Those who will to do so may at least know the outcome of it. South Vietnam is now in the grip of a communist regime, as is much of the rest of Indochina. Terror prepared the way.

The Story in Angola

An even more dramatic use of terror occurred in Angola. From March 14-16, 1961, the northern portion of that large Portuguese colony was ravaged by Bakonga tribesmen from within Angola aided by their kinsmen from the Congo. These concerted assaults were organized in cold blood by Holden Roberto, among others, and fomented by Algerian, Soviet, and Chinese Communists. They were carried out, with a ferocity that can hardly be imagined, by drunken and drugged savages. All the inhabitants of whole villages—men, women, children, black and white—were murdered, the women repeatedly raped, even infants in cribs dismembered, and many people disemboweled. At one village where there was a sawmill, the victims, both dead and alive, were lashed to boards and run through the saw lengthwise.

Most of the tales by eyewitnesses are too full of horrible things to repeat. Here, however, is a snippet from what happened in the village of Fazenda:

> Then the turn came for the women and the children. The beasts made no color discrimination. They slaughtered white, mulatto and Negro alike. They would throw the smaller children high into the air, let them drop on the soil to break their bones and then . . . would play a brutal game of football with the bodies of those dying children, while the poor mothers screamed like crazy in the hands of the beasts. I didn't believe that anything so evil could exist in the world.[3]

The object of this concerted terrorism was to paralyze the will of the Portuguese and drive them from Angola. Had it succeeded then, it would have brought into power men under the sway of communism.

It would be a mistake, however, to conclude from these two dramatic examples that The Disordering Terror is usually concerted or concentrated so as to accomplish such comprehensive objects. More commonly, the terror which precedes communist take-overs is sporadic, isolated and episodic, rises to a crescendo and subsides, getting nowhere as far as can be determined at the time. Even that it is going to lead to

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a communist take-over is a matter of communist faith until it happens. Its immediate object may be much more restricted than that, and frequently is.

Some of the terror may not be planned or directed by communists. Yet, whether it is or not, it becomes grist for the mills of communists. There are at least two general ways this may come about. One of these is where apparently free lance acts of terrorism become a part of the disordering atmosphere which communists can utilize for their purposes. An example would be the terrorist acts by anarchists in the last decades of Czarist Russia. There were many such terrorist acts in the last decade or so of Czarist rule, usually the assassination or attempted assassination of government officials. Most of these were not coordinated or directed so far as is known. But they helped to create the atmosphere of fear and paralysis which enabled the Bolsheviks to bring off a revolution.

Terrorizing Presidents

A more familiar case, one much closer home both in place and time, was what we may call the terrorizing of Presidents of the United States from 1963 to 1973. It began with the assassination of President Kennedy in 1963 and subsided with the withdrawal of American forces from Vietnam. It encompassed the assassinations of John F. and Robert Kennedy, Martin Luther King, the wounding and crippling of George Wallace, and, as an epilogue, the two assassination attempts on President Ford.

So far as we know none of this maiming or killing was directed by any communist or revolutionary organization. True, the assassins of the Kennedy brothers were Marxists or communists of some stripe. But no evidence has been forthcoming that they were ordered to assassinate anyone. Indeed, the only assassin, or would-be assassin, with an ongoing revolutionary organizational connection was the would-be assassin of President Ford, a member of the Manson "Family." It is relevant to point out, however, that revolutionary socialism creates a framework both for organizational terror and for individual acts of terror. The preaching of class hatred and allegations of injustice arouse individuals to act on their own and inspire the formation of "free lance" terrorist organizations such as the Manson "Family" and the Symbionese Liberation Army.

At any rate, there was a framework for the terrorizing of Presidents provided by the spread of communism. The American participation in the Vietnamese War was the most obvious part of the framework. More broadly, there was the spread of communism into southeast

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Asia, Latin America, and Africa. This, plus the fact that the United States was providing just about the only opposition by any outside nation to the spread of communism.

Mao's Cultural Revolution

The Cultural Revolution in Communist China during these years was also an important part of the context. That revolution spread especially to Germany, France, and the United States, where it was the model for the Youth Rebellion. The Youth Rebellion was not only inspirited by Mao's Cultural Revolution spearheaded by students but also by "mind expanding" drugs, psychedelic lights, hard rock music, sexual promiscuity, and hippie lifestyles. Simultaneous with these developments was widespread rioting in the cities, mainly by blacks.

A great many people were terrorized during the turbulent sixties. At the gentler level, there was the terror felt by older people as young people began to crop up in revolutionary clothing, the men sporting Castro-like beards, and girls shedding their femininity by wearing field jackets and dungarees. The sudden change was too swift to be digested; it had the odor of revolution about it, something much more than just a fad. Parents of youth were filled with dread that their children were taking drugs, their daughters might run away from home, their lifestyles cut them off from their elders.

As demonstrations became the order of the day, many people were harassed and intimidated by them. Riots in numerous cities brought terror to shopkeepers, peaceful citizens, and policemen. Indeed, policemen along with anyone who represented authority were especial targets for terrorization. Deans of colleges, an especially benign breed inhabiting academia, were singled out for a while by their student charges to bear the brunt of terroristic acts.

Withdrawal from Vietnam

What brought all these things into focus as a disordering terror in the service of the spread of communism, so far as they were, was the effort to secure American withdrawal from Vietnam. It was this, too, that led to the terrorizing of Presidents.There is no mystery about why that should have been the case. American involvement in Vietnam was an undeclared war. A succession of Presidents—Kennedy, Johnson, and Nixon—took the initiative in dispatching American armed forces and conducting the war. Johnson took the initiative in the heaviest commitment of American forces, and for the last three years of his presidency he became virtually the whole focus of discontent with the war.

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Johnson was terrorized. He was subjected to such vituperation as to surpass anything that had happened before. Demonstrators descended upon Washington periodically, picketing the White House, screaming epithets, carrying Viet Cong flags, quoting Mao, emulating Castro, proclaiming their affection for Ho Chi Minh, and yelling unprintable obscenities. Some civil rights leaders joined in the clamor against the war in Vietnam. Following the triumph of Eugene McCarthy—a "dove" on Vietnam, as those who wanted to wind down the war and withdraw were called—in the New Hampshire primary, President Johnson announced that he would not be a candidate for re-election. After the assassination of Senator Kennedy, the President was increasingly cautious about making public appearances. When the forces opposed to Vietnam descended upon the Democratic Convention in Chicago, Johnson declined even to attend a birthday dinner given in his honor. A President had been terrorized.

The pressure was kept up during the early Nixon years. It would mount to a crescendo following the bombing of Cambodia. How far Nixon yielded to the terrorization is uncertain. At any rate, the siege of disordering terror achieved this much. American forces were withdrawn from Vietnam. Communists came to power there and in surrounding countries. It was a settled mood in many quarters that there should be no more Vietnams. The role of the ROTC in colleges and universities was greatly reduced as a result of student pressures. The draft was suspended. Communist guerrillas continued their incursions in Africa and Latin America, and as this is being written are threatening Rhodesia, Nicaragua, and Iran, among other countries. The revolution did not follow upon that disordering terror in the United States, though communism spread elsewhere, but the softening up succeeded here.

Provocative Actions

The other kind of terror that is not entirely planned by communists but is utilized by them for spreading their ideology is terror they have provoked. Provoked terror from the other side is most useful for propaganda purposes and the swaying of public opinion. It creates confusion in people's minds, making it difficult to decide who is right and who is wrong. The man who became known to the world as Joseph Stalin enunciated the principle, or a part of it, after he had helped to stage a mass demonstration in 1901. In the course of the demonstration, the demonstrators were fired upon by the police. Stalin drew these conclusions: "The whips play on the backs

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of all, irrespective of sex, age and even class. Thereby the whip lash is rendering us a great service, for it is hastening the revolutionizing of the 'curious onlookers.' It is being transformed from an instrument for taming into an instrument for rousing the people. . . . Every militant who falls in the struggle or is torn out of our ranks arouses hundreds of new fighters."[4]

Stalin described the technique as one to gain new recruits for the cause, but as it has developed it is much more than that. It enables communism to spread from behind a cloud cover of being on the side of the angels. It enables the makers of terror and consistent users of terror to point the accusing finger at their opponents, to describe the regime which opposes them as corrupt and oppressive. The development of television and satellite transmission brings the evidence of repression into the homes around the world while the provocative acts have either already taken place or are concealed.

Examples are so numerous that they can only be alluded to. In the 1930s, Edgar Snow described the Kuomintang of Chiang Kai-shek as corrupt and oppressive. He told stories in the *Saturday Evening Post* of such things as the burying of peasants alive by minions of the regime. In the 1950s, Americans, and others, were treated to tales of the cruel tortures in Batista's prisons in Cuba. More recently, there have been stories of terror by the Greek Colonels and the Argentine Generals. The Buddhists who burned themselves alive—who terrorized themselves, so to speak—were the *cause célèbre* which brought down Diem in Vietnam.

The Kent State Event

There is ample, even overwhelming evidence that much of the violence used against communists and other revolutionaries is deliberately provoked.[5] The reverse terror which communists find most useful is some incident which can be magnified, dramatized and can become the symbol of the repression of a regime. "Bloody Sunday" became such an incident in Czarist Russia. The event occurred in St. Petersburg in 1905 when demonstrators marched on and massed before the Winter Palace. The throng ignored commands to turn back and the firing of blanks, so the soldiers fired into their ranks, killing some of the demonstrators. Here was the dramatic incident which could be recalled over and over again for purposes of undermining the government.

The happenings at Kent State University in the spring of 1970 provide an example of the reverse terror tactic. There is space here only to give a bare outline of what

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occurred. Prior to the events that have become known as "Kent State," a radicalization of much of the student body had taken place. The Students for a Democratic Society was the organization most directly responsible. The local chapter was provided with additional revolutionary fervor from time to time by "regional travelers," adults trying to spark activity in the locals. Among the regional travelers to Kent State were Bernadine Dohrn, Terry Robbins, and Mark Rudd. Miss Dohrn professed to be a revolutionary communist, and Terry Robbins was known as "V.I.," the initials used by Lenin.[6]

On May 1, 1970, public announcement was made concerning a series of bombings by the United States Air Force of the access route to South Vietnam used by the Communists. This was made the occasion for student eruptions on a goodly number of campuses. Saturday, May 2, became the target day for action at Kent State. The ROTC building was burned; thugs with clubs beat off those who tried to put out the fire; and an atmosphere of terror prevailed as other buildings were threatened. The National Guard was sent in to restore order. The Guardsmen were subjected to a continual torrent of verbal abuse. A grand jury declared that "the verbal abuse directed at the Guardsmen by the students during the period in question represented a level of obscenity and vulgarity which we have never before witnessed. The epithets directed at the Guardsmen and members of their families by male and female rioters alike would have been unbelievable had they not been confirmed by the testimony from every quarter. . . ."[7]

The Guardsmen were confused and frustrated—terrorized—after a weekend of such psychological warfare. On that fateful Monday, as the Guardsmen began a retreat to regroup there was a large throng of rioters on their right flank. A contingent of Guardsmen turned back, pointed their rifles toward the throng, and began to fire. Four students were killed.

The revolutionaries had their event now. Hundreds of colleges and universities were closed down. A moment of reverse terror had taken place, one which could be made into a battle cry, one which could be turned into a symbol for an alleged repressive society. The symbolic fire ignited there soon subsided, but there are still smoldering coals which are fanned from time to time in the hope of kindling a flame.

The thrust of the disordering terror is toward civil war. Indeed, the disordering terror becomes regularized when sustained guerilla warfare is underway. Guerilla warfare is terrorism leading directly toward the seizure of power. Since

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his death. Ché Guevara has been the symbol of this mode of operation as it has caught on in various places around the world.

The other stages of the terror can only be described in brief here. While it is important to know that they occur, they belong to the story of the consolidation of revolution rather than directly to its spread. They do help to confirm the fact that undergirding communist power is a prolonged and permanent terror. Of course, once communists have seized power they not only monopolize it but the terror as well.

The Terror of Suppression

The second stage of the terror is The Terror of Suppression. This is the terror which accompanies and follows upon the seizure of power. Although there is no timetable, so far we know, it has usually lasted as long as two to three years. In the Soviet Union, its dates were 1918-1921, those that are usually given for the civil war. In Hungary, it was approximately 1945-1948. In Cuba, it occurred mainly within a couple of years of Castro's seizure of power.

This terror has a specific purpose. It is to bring all power into the hands of the communists. Communists do not usually get all power directly. They usually share power with a coalition, such as other revolutionary parties, labor union leaders, peasant and other farmer organizations, and military leaders who are more or less under their sway. Moreover, the organizations through which society normally operates—business firms, churches, fraternal associations, schools, the media of communication, local governments, and so on—may be independent organizations on which hold over the central government has no immediate impact. Beyond these, there is the matter of the bulk of property being in private hands. All other political parties must be suppressed, all organs of force brought under the communists, social organizations made subservient to communist rulers, and property seized. Terror is essential for a minority to accomplish such a coup.

Such political parties as are permitted for a time are terrorized by the police whom the communists control. Any parties that remain are then fused with the communist party. The leaders are generally disposed of in one way or another. For example, "The Roumanian socialist party had always been very small and weak; it won some importance in 1945 only because it was less disliked by the Roumanian workers than was the communist party. But communist pressure, reinforced by Soviet military power, quickly brought it to heel. At a congress held in March 1946 the party split, the opponents of the communists forming a separate party

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which had but a short life. In November 1947 'fusion' took place."[8] Which is to say that only the Communist Party remained.

Absorbing Other Groups

Other organizations survive only to the extent that they are useful to communism and can be controlled by the communists. The old leaders are subjected to such terror as may be necessary to drive them out or subordinate them. In doing this, as well as seizing private property, communists use to good effect the greedy and avaricious have-nots among the populace. Castro's regime in Cuba illustrated how this may be done shortly after the seizure of power. Castro organized militia units to take over organizations and to bully those within them into submission. Paul Bethel says that "Almost without exception . . . the militia units . . . came from the bowels of . . . society. The least productive and the least capable were to be found there. . . ."

> Dressed in militia uniforms, authority dangling from the holsters on their hips, hotel bus boys, garbage collectors, taxi drivers and office clerks found that they could intimidate their superiors and receive the support of the revolutionary regime. . . . As organization progressed, instructions began to flow through the ranks, instructions which had no other aim than to bring the whole of Cuban society under the control of government. . . .
>
> Local labor unions began to lose their hold on laborers as militiamen usurped both power and position. Union officials were intimidated, harassed, and threatened outright. . . .
>
> More than one business leader was jolted when a group of militiamen-employees walked unannounced into his office and flatly told him how to conduct his business. . . .[9]

This was but prelude, of course, to the taking over of private property. Quite often this has been accomplished in a mob-like atmosphere as renters seize the places where they live, as employees seize factories, and as peasants seize the land.

The Transformation Terror

The third stage may be called The Transformation Terror. This is in many ways a continuation of The Terror of Suppression, but it is often enough sufficiently separate from it to constitute a separate stage. It is probable that many Russians in the 1920s and Chinese in the 1950s believed that the worst of the terror was behind them. They had undergone The Terror of Suppression. But worse lay ahead—The Terror of Transformation. This is the stage of the totalizing of power, the wiping out of the last relics of independence, the purging of the old revolutionaries, the taking of lands and factories from peasants and workers, if that has not already taken

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place, and the molding of the population to the will of the rulers. Terror may be reckoned to be as essential to these tasks as to the others. This was the period of the Stalinist terror in Russia.

Its transformation character may be best illustrated by the Cultural Revolution which took place in Communist China in the mid-1960s. This revolution was promulgated and let loose by the communist leaders. It was a purge, not only within the Party but in the society at large. The instrument used for the purge was students—young people in high school and college. Its purpose was to discredit and shake from power the bureaucracy which exercised authority in China. In terms of communist ideology the bureaucracy had become corrupt and reactionary. In fact, one suspects, power had become to some degree dispersed in China. It is a natural tendency for authority to become dispersed, for those who exercise power, however acquired, to begin to do so as a matter of right. Indeed, some of the harshness of dictatorship is often reduced by the dispersal of authority. At any rate, the government sponsored a rampage by students against authority, and those who had exercised power, as well as the general populace, were terrorized for several years.

The first to be terrorized generally were school administrators and instructors. Many of these were brought before students to be judged. They were accused of being corrupt reactionaries. They were humiliated, tortured, often enough stomped and beaten, made to confess and recant, and stripped of their authority. From the schools, the revolution expanded out into factory and field. Students battled with the police and, at times, even took on the army. Civil war raged, instigated by the top leaders of China.

Mao Tse-tung and Chou En-lai had shown much greater imagination in unleashing terror than had Stalin. To set the young to terrorizing their elders must surely be the ultimate betrayal of a people by the government.

The Permanent Terror

So far as can now be determined, the fourth stage, The Permanent Terror, may be the final stage. When the populace has been terrorized into submission the terror subsides. There may, of course, be new outbreaks of terror, and the possibility of these is surely a part of the permanent terror. But the outward terror is generally greatly reduced. It can be more subtle, be psychological more often than physical, become a permanent war on the spirit of man. Terror becomes an enduring threat, an intimidating force which permeates life.

In its deepest dimensions, the ter-

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ror arises from the use of force unredeemed by love. The Reverend Richard Wurmbrand tells this story. It occurred somewhere behind the Iron Curtain, in what country I do not know. Mr. Wurmbrand was no longer permitted to have the forum of a pulpit or any other formal setting for his preaching. So he went about quietly, taking the Gospel to such individuals as would hear it.

One day he fell into conversation with an army officer on the street. They talked for a bit, and Mr. Wurmbrand invited the officer to his home. When they had sat down, Mr. Wurmbrand related to him the story of the life of Jesus, and of his death on the cross, in a simple and direct manner. When he had finished, the officer's eyes filled with tears and he wept unashamedly. In explanation, he said something to this effect: I did not know that there was such a man. I did not know that there was such love.

No doubt, the army officer knew much of hate. He had during his lifetime been subjected to a constant barrage of propaganda aimed at arousing his hatred for the class enemy. No doubt, he knew something of the brutalizing use of force by the regime over him. He must have witnessed the jockeying for power and privilege. Surely, he had experienced sexual appetite, and there must have been those along the way for whom he had affection. What a relief it must have been to find himself warmed by a transcendent love, a love that had in it no element of calculation, a love that expressed itself through sacrifice, a love that somehow had reached across the ages from a carpenter in Galilee to touch an army office in Eastern Europe!

The ultimate terror is the pervasive use of force in an atmosphere of hate. This is the permanent terror of communism.

Next: *26. The Cold War: The Spread of Gradualism.*

—FOOTNOTES—

[1]Whittaker Chambers, *Cold Friday* (New York: Random House, 1964), pp. 149-50.

[2]Marguerite Higgins, *Our Vietnam Nightmare* (New York: Harper & Row, 1965), p. 14.

[3]Bernardo Teixeira, *The Fabric of Terror* (New York: Devin-Adair, 1965), p. 100.

[4]Eugene H. Methvin, *The Riot Makers* (New Rochelle, N.Y.: Arlington House, 1970), pp. 361-62.

[5]See *ibid.*, chs. XI-XIII.

[6]See James A. Michener, *Kent State* (Greenwich, Conn.: Fawcett, 1971), pp. 85-104.

[7]*Ibid.*, p. 222.

[8]Hugh Seton-Watson, *From Lenin to Malenkov* (New York: Frederick A. Praeger, 1955), p. 258.

[9]Paul Bethel, *The Losers* (New Rochelle, N.Y.: Arlington House, 1969), p. 125.

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Percy L. Greaves, Jr.

The Market Economy VS. The Welfare State

THE HISTORY of the 20th century has been the story of the growth of statism—the ever-increasing control of governments over the lives, actions, earnings, inheritances and other accumulations of their inhabitants. The underlying principle, seldom questioned, has been that those elected or appointed to official government positions are "experts." They are thought to know what is best for their trusting incompetent charges, even though, in some cases, the same incompetents are considered intelligent enough to choose their supposedly wiser rulers.

The motivating precept of this century has been the basic Marxian fallacy that in a free market society the rich grow richer and fewer in number while the poor grow ever poorer and larger in number. This in turn is based on the fallacy that employers set wage rates and producers set prices. It is thus almost universally believed that in a free society workers and consumers are totally at the mercy of rapacious business interests.

This ill-founded, but popular, concept of an unhampered economy has stimulated a demand for laws that limit the freedom of business organizations and confiscate the major part of their earnings. Such laws are expected to correct what are considered the undesired trends of a market system. By the use of democratic means, laws are passed in attempts to thwart the ultimate disaster of a plutocratic oligarchy. These laws seize more and more of the wealth of the successful minority, while allocating much of the appropriated

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funds to the envious and less productive majority, with the political brokers retaining an ever-increasing share for themselves and their friends. The principles of a limited government have been superseded by the almost universal acceptance of the idea that everything must now be decided by a majority vote, even as to who should pay for the birth or non-birth of each baby and how each person's earnings must be shared among the electorate.

This process of socialistic leveling has become so widely accepted that when a co-chairman of a Tenants for Political Action group was recently charged with using political influence to force landlords to subsidize tenants, she replied, "I see nothing wrong with having political pressure. That's the name of the game and that's what this country is all about."

Stealing, i.e., taking the property of others by force, is now considered legitimate if it is done by the political process of majority vote. Such short-sighted avarice and economic ignorance are widespread. Morality and sound economics are no longer considered reasonable guides for public actions. The result has been that politicians promise voters more than they can deliver. Further seizures of the earnings of the high producers of wealth no longer satisfy the demands of those who believe they are legally and morally entitled to more than consumers will voluntarily pay for their contributions to society. So, for years now, politicians have sponsored inflation, creating by law or regulation, more and more additional monetary units with which to pay the bills. One of the effects of this inflation has been ever higher prices, a fact that alarms the public.

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This article is reprinted by permission from his Editor's Introduction to the volume, *On the Manipulation of Money and Credit* by Ludwig von Mises, translated by Bettina Bien Greaves, 352 pages, $14.00. This book, published by Free Market Books, P. O. Box 298, Dobbs Ferry, N.Y. 10522, is also available from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.

Defining Inflation

In order to relieve themselves of the blame, the politicians and pressure groups who promote our inflationary processes have succeeded

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in changing the popular definition of inflation. Historically, periods of inflation have always been considered periods of rapid increases in the quantity of money. This was so in all reports of both the American and French Revolutions. It was also so during the post World War I inflations which reached their apex in Germany in 1923. However, those who favor the deceptive processes of inflation, as a means for transferring wealth from those who earn it to those they consider more worthy of it, have changed this definition of inflation. Inflation now means to almost everyone a rise in prices. Unfortunately, such higher prices are only one of the inevitable consequences of an increased quantity of money bidding for available goods and services.

This shift in the popular definition of inflation tends to hide from most people the obvious way to end inflation. When inflation is defined as "higher prices," most people conclude that it is businessmen who raise prices. Therefore, businessmen must be responsible for inflation. The way to end inflation is then thought to be the control or legal limitation of price rises.

It is true that businessmen raise prices. They would like to raise their prices with every sale. However, it would do business organizations no good to raise their prices, if there were not some customers who could and would pay the higher prices they ask. If no one bought their wares at the higher prices, those prices would soon come tumbling down. The higher prices that we have been seeing in recent decades have been made possible solely because governments have made available increasing quantities of money to politically favored customers who then can and do pay the higher prices. This means that those who do not share in the political allocation of the newly created money find their purchasing power greatly diminished. If they believe what they read in the papers or see on television they blame businessmen rather than politicians for the higher prices which reduce the buying power of their earnings.

When inflation is defined as an increase in the quantity of money, the remedy becomes obvious. Businessmen cannot create money. Under present-day laws, only governments and their agencies can. To stop inflation, all that needs be done is for governments to stop authorizing any further increases in the quantity of money.

Misdirection of the Economy

Unfortunately, higher prices are *not* the most important consequence of the political creation of new monetary units. These monetary units are endowed with full legal tender power. This means that,

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by law, they have the same purchasing power as all previously issued monetary units of the same name. New monetary units cannot be created by governments or anyone else without someone getting them and spending them first. Those who first receive these newly created monetary units are able to go out on the market and buy things they could not otherwise buy. They can and do buy things which other people would have bought with the money they had earned or saved. Thus every political creation of new money transfers wealth from workers and savers to those who are spending in the market place newly created monetary units which no one has earned.

As a result, the production facilities of the nation are gradually redirected with an ever larger percentage devoted to the satisfaction of those spending the newly created money. Those catering to the spenders of the newly created money find their sales going up and the politicians proudly point to the activity they have stimulated. On the other hand, those who can only spend what they have earned or saved find that they must reduce their purchases and their living standards.

Why Inflation Accelerates

As prices rise with the increased quantity of money, more and more new monetary units must be created to maintain the business activity dependent upon the creation of the new monetary units. As time passes, more and more production facilities are directed toward satisfying this demand which can only be maintained by increasing the quantity of money at an ever-increasing rate. This, of course, tends to lower the purchasing power of the monetary unit. Sooner or later, such increases in the quantity of money must come to an end, either by a deliberate action stopping the creation of more monetary units, or by continuing until the purchasing power of that monetary unit approaches zero.

When inflations come to an end, as they must, those who have been producing and catering to those spending the newly created monetary units lose their customers. They must redirect their activities toward satisfying the only consumers left, those who have acceptable funds as a result of their contributions to the market. This redirection of the economy, popularly known as a recession or a depression, is actually a correction of the prior misdirection resulting from the inflation. It is a very painful period, particularly for two groups: (1) those who have been producing for the spenders of the newly created money, and (2) those who have become accustomed to spending money they have not earned. The suffering cannot be completely avoided, but it can be

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reduced to a minimum by permitting free market prices, wage rates and interest rates to direct the economy to the most efficient satisfaction of those who contribute to the economy. All political attempts to control prices, hold wage rates up and/or hold interest rates down interfere with the indicators that direct business enterprises toward the most efficient use of available capital and labor.

Consumers Are Sovereign

The simple facts stated above are seldom understood, because so few people have ever read or heard them. Rare are the schools, colleges, politicians or mass media who promulgate the simple economic fact that, in a truly free market society, it is the consumers who are sovereign. It is the consumers who determine the limits on the wage rates that may be paid and the interest rates that are profitable for both borrowers and lenders, as well as the ultimate prices of consumers goods. Consequently, there are very few people today who realize that when government serves only as a keeper of the peace, that is, as a protector of lives and property and a punisher of those who resort to force or fraud, it is the consumers who, by their voluntary purchases and refusals to purchase, determine the incomes of all those who contribute to the market place. It is consumers who make some actresses, football stars and businessmen rich and it is consumers who retire to the sidelines those who do not satisfy them.

Whenever government interferes with the sovereignty of the consumers, it always helps some at the expense of others. It discourages the production of wealth, not only by reducing the incentives of producers but also by subsidizing the human tendency to indolence and parasitism. The unhampered market, where everyone, protected by government, is acting voluntarily, operates according to the Golden Rule. The more one contributes to the society, the more he or she receives in return. This is an incentive for everyone to contribute more of what consumers are buying as this is the most efficient means for increasing their own incomes.

A Society Divided

When society forsakes the free market and the Golden Rule for the welfare state principles of transfer payments and special privileges for the politically powerful, it divides society into factions, each of which is struggling to get what that group considers its fair share of the wealth of others. No legislative body made up of human beings can ever divide available wealth in such a way as to satisfy every element of the population. So as long as funds are taken from some to give to others, there

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will be perpetual political struggles among the various pressure groups, each striving to get more for their members. Such political efforts must inevitably reduce the productivity of that society. As a consequence, the living standards of all will fall. While everyone suffers, those who are hurt most are the lowest income producers. More and more people will devote their efforts to preserving their wealth or obtaining more by political means, while fewer and fewer will save, invest and produce for the market place. There will be a growing number who will resort to violence in order to survive under the existing conditions. Only a trend toward a free and unhampered market can prevent this disastrous consequence.

As man and the world exist, every human being has unlimited wants, while the goods and services available for satisfying those wants are always limited. The economic problem is one of determining how we can best satisfy more and more human wants by ever increasing the quantities of goods and services available. No political intervention can improve upon the unhampered market processes which allocate available limited quantities to those consumers able and willing to pay the highest prices. The ability of people to pay such market prices arises from the prior valuation consumers have placed upon their individual contributions. Thus consumers, by their bidding in the market place, set all prices. This competition of consumers also sets the height of the income of each worker and investor. Consumers thus establish each worker's wage rates and the amounts that can be paid for raw materials and borrowed capital.

In such an unhampered market, businessmen are merely middlemen competing for the favors of consumers, whose purchases determine those who can expand and those who must contract their activities, including their work forces. No business can long pay higher wage rates or raw material prices than those that can be paid with what they receive from their customers. Nor can any employer long make high profits by paying lower wage rates than those that customers will voluntarily repay. Those who attempt to do so soon find other employers will bid their workers away in their attempt to attract more customers with lower prices which squeeze profits. So, in the long run, it is always the consumers who determine the shares of total production allocated to each participant, be he investor, employer or employee.

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Yale Brozen

THE ATTACK ON CONCENTRATION

ONCE we gave high regard to those who created great enterprises by designing desirable products, producing them at low cost, and offering them at such attractive prices that they won a large body of customers. Henry Ford, in his day, was looked upon as an industrial hero. Today, he would be regarded as a monopolizing fiend upon whom the antitrust prosecutors should be unleashed. The 1921 Ford Company, with its more than 60 per cent share of the market, would today be called a dominant firm and charged with violating the antitrust laws.

Just a few months ago, an antitrust complaint was served upon Du Pont because it developed a low-cost method for producing titanium dioxide pigments. There was no objection to the development of a lower cost method of production, but Du Pont made the fatal error of passing enough of the cost saving on to buyers to win 40 per cent of the market served by domestic producers. Not only did it do that but it is going on to enlarge its capacity, building a new plant at De Lisle, Mississippi, in order to serve even more customers (who also would like to obtain domestic titanium dioxide at low cost). Can you imagine that any enterprise would engage in such a nefarious activity? It should, according to the FTC, behave like a monopolist. It should restrict its output, instead of expanding, and charge higher prices (and let the business go to foreign firms).

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This article is condensed from an address before the Ashland, Kentucky Economic Club, September 15, 1978.

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Antitrust Upside Down

That is a total perversion of the intent of our antitrust law. If the FTC is not standing antitrust law on its head, then I simply do not understand what our antitrust law says. The words "every contract, combination, or conspiracy, in restraint of trade is hereby declared to be illegal" say that it is *restraint of output* that is in violation of the law. But the FTC contends that Du Pont is violating the law because it has "adopted and implemented a plan to *expand* its domestic production capacity."[1] That quite plainly says that the FTC regards Du Pont as breaking the law by *expanding* trade. Is that what the law says is illegal?

In whatever way I torture the phrases in the antitrust law, I simply cannot get it to say that expanding trade is illegal despite the thunder in the FTC complaint. Whenever anyone builds more capacity and uses it to produce more product, more trade must result. I can't believe that Du Pont is building a new titanium dioxide plant just because it wants a handsome monument at which to gaze—and neither does the FTC. What the FTC is complaining about is that Du Pont intends to produce titanium dioxide in its new plant and increase its sales—and it is nasty of Du Pont to have already built enough plant to take care of 40 per cent of the needs of customers for domestic product. That makes Du Pont "the nation's dominant producer." There can hardly be anything more venal than a "dominant producer," unless it is a "shared monopoly."

"Brand Proliferation" through Hypnotic Advertising

"Shared monopoly" sounds like a label for a conspiracy among several firms to monopolize a market and share the fruits of that monopoly. But that is not what the FTC means by the label. The phrase is FTC code for a few firms winning and holding a large share of the business in some product line. The FTC staff is currently prosecuting Kellogg, General Foods, and General Mills for "sharing a monopoly" of ready-to-eat (RTE) cereals. These three firms have managed to produce and distribute cereals that taste good enough and cost consumers little enough to win more than three-quarters of the RTE business. That is their crime.

Did these three firms conspire with each other to somehow force other firms out of the industry and then conspire to reduce supplies and raise prices? The FTC disavows any accusation of any such conspiracy. It says that the crime of which these firms are guilty is "brand proliferation." The heinous conduct of which it accuses these firms is that of trying to give consumers what they

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want. It is now a crime, that is, the FTC is trying to make it a crime, to follow that old merchandising maxim for success, "give the lady what she wants."

The cereal companies should have stuck to producing corn flakes. Never mind the demand for a bran cereal, or a high protein cereal, or a vitamin enriched cereal, or a presweetened cereal. Anyway, says the FTC in its complaint, there are no differences between cereals—except those artificially created in the minds of consumers by hypnotizing them with advertising.[2] Of course, if the new brands offered by the three firms in the 1950s and 1960s had not won a large share of the market, nothing would have been wrong with "brand proliferation." But the new brands pleased consumers. They won for the three firms a large share of the market. That, at bottom, is the crime these firms committed. The RTE cereal industry has become "concentrated," that is, most of the sales in the industry are made by a few firms. That is a condition which neither the FTC nor the Antitrust Division intends to tolerate.

The FTC staff also has accused the eight major petroleum refiners of engaging in a "shared monopoly" in the petroleum refining industry. It is asking that these corporations be broken into smaller companies. The major crime of which the Big Eight stand accused is that of maintaining a "noncompetitive market structure." This phrase is never cogently defined by the FTC staff, but "concentration" seems to be the nub of it. Complaint counsel says the eight companies "are all vertically integrated firms with *substantial horizontal concentration* at every level of the industry" (emphasis supplied).[3] Counsel also says the eight "own and operate refineries accounting for approximately 65 per cent of rated crude oil refining capacity in the relevant market." Even more damning, "This figure . . . understates concentration . . . because [the eight firms] . . . utilize more of their refining capacity than other refiners. Hence [their] share of *production* of refined petroleum products . . . is higher than their share of rated refinery capacity. . . ."

Again, here is the accusation that these alleged monopolists are not behaving like monopolists. Instead of restricting output and restraining trade, they push their capacity harder than do their competitors and expand output and trade. Apparently they are unaware of the fact that they are monopolists who can get higher prices by restricting output. Again, the FTC is displeased by efforts to expand trade and is standing antitrust law on its head by saying that the *failure to restrict trade* is a violation of the law. The FTC even accuses the companies of building pipelines to provide them-

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selves with "cheap transportation." Again, as in titanium dioxide, it is apparenty illegal to reduce costs and pass enough of these cost savings on to customers to win an appreciable share of the market. (In the petroleum case, we cannot say a "large" share of the market has been won since no petroleum refining firm sells as much as ten per cent of the petroleum products sold in the United States.)

These three cases are cited to show the current state of antitrust doctrine at the antitrust agencies. The question remains of whether the courts will buy this upside down view of antitrust law in view of its legislative history.[4]

Antitrust Not Intended to Fragment Industry

When federal antitrust policy began, with the signing of the Sherman Act in 1890, it was aimed at benefiting consumers. In the words of Senator Sherman, the act was to outlaw arrangements "designed, or which tend, to advance the cost to the consumer." It was neither intended to fragment industry nor to prevent occupancy of a major share of a market by one or a few firms. When Senator George Hoar explained to the Senate the Judiciary Committee's final draft of the bill, he declared that *a man who "got the whole business because nobody could do it as well as he could" would not be in violation of the Sherman Act.* As Professor Bork has pointed out in his examination of Sherman Act legislative history, "The statute was intended to strike at cartels, horizontal mergers of monopolistic proportions, and predatory business tactics."[5] As the act itself says, "Every conspiracy in *restraint* of trade . . . is hereby declared illegal" (emphasis supplied).

Cost and price reductions and product improvements by a firm expand the trade of a whole industry. Since firms doing this frequently win a large share of the markets in which they operate, judges in the early days of antitrust litigation did not hold "concentration" of sales in the hands of a few firms or "dominance" by a single firm to be illegal in and of itself. Standard Oil and American Tobacco were broken up in 1911 because they had been built by a very large number of mergers of monopolistic proportions with wrongful intent and had then engaged in "acts and dealings wholly inconsistent with the theory that they were made with the single conception of advancing the development of business . . . by usual methods. . . ." The defendants failed to show that the intent underlying their mergers and their acts was the normal one of efficiency and expansion of trade—they failed to show "countervailing circumstances" in Judge White's phrase. They were,

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therefore, subjected to antitrust remedies. The remedies were not applied because of their dominance but because they were formed and maintained by *monopolizing* acts and intent—that is, by a desire to gain *control* of the supply of a product and to use that control to charge a monopoly price and thereby restrain trade.

Dominant Firms Do Not Control Supply and Price

There is a distinction between *controlling* the supply of a product and *producing* or selling most of the supply of a product. "Dominant" producers who *sell* a major portion of a product's supply usually have no control over the supply. They have no power to set any lower level of industry output and a higher price than that which would prevail in a market with many suppliers and no dominant firm. Usually, a dominant producer is the most efficient firm in the industry. Its large output is the result of its efficiency in supplying the market. The market price is as low as it would be with many producers—frequently lower. Any attempt by a dominant firm to restrict its own supply and increase price after reaching a "dominant" position simply results in the expansion of output by other firms, the entry of additional firms, and loss of its dominance. A dominant firm can keep its dominance only by behaving competitively. *The fact that there is a dominant firm,* or small group of firms, *in an industry is evidence of competitive behavior—not of monopolization.*

The lack of ability of a dominant firm (or group of firms) to control supply and price simply because it produces a major part of the supply of a product is illustrated by the experience of the automobile industry in 1927. From 1921 to 1925 the Ford Motor Company supplied more automobiles than all other firms combined. The Ford Company was a dominant firm. It completely shut off its supply to the market for nearly the entire year in 1927 when it closed down to retool for the change from the Model T to the Model A. If the fact that a firm supplies the majority of a market gives it any power to *control* supply and price, then the complete withdrawal of that firm's supply should certainly cause a rise in price. Yet the prices of automobiles failed to rise when Ford shut down despite its having been the dominant producer. Other manufacturers increased their output and prices *fell* by mid-1927 despite the complete withdrawal of the Ford supply of newly manufactured cars from the market.[6]

The fact that a dominant producer has, at most, a very short-lived ability to influence the price of a product can be illustrated by numerous

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anecdotes. The American Sugar Refining Company merged 98 per cent of the capacity for refining sugar east of the Rockies in 1891 and 1892. By cutting production it managed to raise refining margins by 40 per cent in 1893 (which raised the price of sugar by 8 per cent). Expansion of output in other firms cut sugar refining margins in 1894 to a level little higher than the 1891 margins despite further reductions in output by American Sugar. By 1894, the entry of additional capacity had forced margins back nearly to 1891 levels and had cut American's share of the sugar business by one-quarter. American was still a dominant firm by today's FTC definition, but it had lost all influence over price and output despite its 85 per cent share of capacity.[7]

In 1901, American Can merged 90 per cent of all capacity in the can business. It raised prices by one-quarter and lost one-third of its share of market in short order despite additional buying up of competitors and their output. Prices returned to the pre-merger level in a very short time.

These are the most successful monopolizing cases I can find aside from the Air Line Pilots Association, the Teamsters, and similar labor unions.[8] What they demonstrate is that a dominant firm quickly ceases to have any influence in the market if it charges a supracompetitive price. In some cases a dominant firm willing to restrict output greatly has *no* ability to obtain a supracompetitive price even in the short-run.

Shifting Market Shares

Dominant firms, that is, firms which sell a major part of all product sold, remain dominant only if they charge the competitive price *and* are more efficient than other firms in their industries. If they are less efficient, they soon find their market share dwindling despite selling at competitive prices. The Big Four in the meat packing industry, for example, has seen its share of the market dwindle from 56 per cent in 1935 (and from an even higher share in earlier years) to 47 per cent in 1947 to 38 per cent in 1956 to 22 per cent in 1972.[9] The relative inefficiency of the Big Four showed in the 1920s when their rates of return on investment ran at one-third the rate earned by smaller companies.[10] That situation continued up to at least 1972, and market share of these inefficient firms fell.

The Big Four meat packers (The Big Five in the 1917 FTC investigation) originally achieved a large market share in meat packing by their efficiency—by instituting assembly line methods with complete utilization of all by-products. They became known for using everything "but the squeal." Also, their development of refrigerated packing

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houses, cold storage, the refrigerator car, and an efficient distribution system created enlarged markets for meat supplied from cheaper livestock sources. They grew large by being innovative. Once their innovations were imitated by other packers, the decline of the Big Four began, accelerating with the spread of highways and the rise of trucking.

The "dominance" of the Big Four did not give them any power to restrict output or to control price. If anything, the rise of the Big Four decreased the dominance of local markets by local butchers who had to compete with fresh meat brought in by train by the Big Four,[11] especially after state laws prohibiting the sale of "foreign"meat were ruled unconstitutional. Nevertheless, the FTC filed one of its earliest "shared monopoly" suits in September 1948 against Armour, Cudahy, Swift, and Wilson, accusing them of "conducting . . . operations . . . along parallel non-competitive lines." They had served consumers too well, thus incurring the hostility of local butchers in the late nineteenth century and the first quarter of this century. Long after local packers began outcompeting the Big Four, in the second quarter of the century, the FTC, in a flagrantly anti-consumer action, rode to rescue the fair maidens who by now had grown mustaches and larger biceps than the Big Four. The FTC demanded that Armour and Swift each be broken into five companies and that Cudahy and Wilson each be broken into two firms. The FTC reluctantly dropped the suit in March 1954, nearly six years and millions in legal costs after it was brought, but only because the court ruled that pre-1930 behavior was irrelevant in a 1950s proceeding.

Why Are Dominant Firms Being Attacked?

The attacks on concentration, whether in the form of an attack on a "dominant" firm or a "shared monopoly," seem to be fairly episodic. The question to be asked is why large firms with a large share of the market are left undisturbed for long periods and then turned on at other times. It is not purely coincidental that the nation suffered a severe deflation from 1882 to 1890, prices dropping by 25 per cent in that interval, and the Sherman Act was passed in 1890. At that time, the declining prices were blamed on "cutthroat" and "predatory" competition—and this was also a time in which economies of scale in manufacturing, combined with a rapidly declining cost of transportation, led to centralization of production in enlarged facilities.

From 1867 to 1887, for example, sugar production doubled, from one-half to one million tons annually, and the number of refineries

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decreased from 60 to 27. In the same period, railroad freight rates fell by 60 per cent.[12] The economies of centralized production together with reduced transport costs led to larger plants supplying more distant markets at lower prices than the smaller plants resident in those markets. So the myth of "cutthroat" competition and "predatory" pricing was born in this and many other industries. Antitrust cases were brought against dominant firms such as American Sugar, Standard Oil, American Tobacco, and others.

Another deflation in which prices again dropped by 25 per cent, from 1929 to 1933, again led to animus against "Big Business" and especially against that rising innovation in marketing, the chain store. The investigations of the Temporary National Economic Committee once again directed the country's ire toward dominant firms and industrial concentration. Antitrust cases were brought against dominant firms such as Alcoa and A & P and against "shared monopolies" as in the Mother Hubbard case against the petroleum companies, the proceeding against the major cigarette companies, and the FTC case against the Big Four in meat packing.

Currently, we are trying to find scapegoats for inflation.[13] So we have brought cases against "dominant" firms such as IBM, AT&T, and Du Pont and against the "shared monopolies" already described.

When we are troubled by deflation or by inflation, both brought on by the government's ineptness in operating our monetary and fiscal policy, the politicians export the blame to somebody else. Mr. Carter tells us in his speeches that the government is not at fault for our inflation—it is up to business and labor to bring inflation to a halt.

In this modern day, we are no longer subject to the kind of superstitions that led the early colonists to hang witches when they were troubled by forces they did not understand. Instead, in this enlightened age, when we seek to rid ourselves of the causes of inflation and other mysterious ailments, we pillory dominant firms or the Big Fours in concentrated, and not so concentrated, industries.

The Potential Losses from Deconcentration

This absurd behavior by our politicians and its acceptance by the electorate as being something more than a hunt by politicians for witches to blame for their own mistakes might be tolerable if it were nothing more than expensive entertainment of voters. But it is something more. It is counterproductive in terms of the ends we seek—less inflation, higher rates of growth, and improved levels of living.

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Prices have gone up less rapidly in our most concentrated industries than in others and productivity has grown more rapidly. From 1967 to 1973, prices in our most concentrated industries rose less than half as rapidly as prices in all manufacturing.[14] From 1958 to 1965, prices in our most concentrated manufacturing industries actually fell while prices in other manufacturing industries rose. Yet it is our concentrated industries with a superior record for moderating inflation and a superb record for increasing productivity that are being cast in the role of economic villains.[15]

If this witch-hunt continues, the result will be economic disaster. If we deconcentrate all our manufacturing industries in which four firms produce and sell more than 50 per cent of the product, the result will be a 20 per cent rise in costs and a 10 to 15 per cent rise in prices.[16] If we want to hasten our decline to the status of a banana republic, the attack on concentration will contribute to that end.

—FOOTNOTES—

[1]*FTC News Summary,* April 14, 1978, p. 1. Emphasis supplied.

[2]FTC Docket No. 8883, April 26, 1972.

[3]Complaint Counsel's Prediscovery Statement, In the Matter of Exxon Corporation, et al., Docket No. 8934, pp. 7-10.

[4]The Court did accept this upside down view in reversing the lower court in the Alcoa case. Y. Brozen, "Antitrust Out of Hand," The Conference Board *Record,* vol. 11, no. 3 (March 1974).

[5]Robert Bork, *The Antitrust Paradox* (1978), p. 20.

[6]Federal Trade Commission, *Report on Motor Vehicle Industry* (Washington: U.S. Government Printing Office, 1939).

[7]Richard Zerbe, "The American Sugar Refinery Company, 1887-1914; The Story of Monopoly," *Journal of Law & Economics,* vol. 12 (1969), pp. 353-357.

[8]Y. Brozen, "The Consequences of Economic Regulation," *New Guard,* vol. 15 (June 1975).

[9]The 1956 and subsequent figures overstate the share of market retained by the original Big Four since Cudahy was displaced by Hormel.

[10]Ralph C. Epstein, *Industrial Profits in the United States* (New York: National Bureau of Economic Research, 1934), reports that twenty-three leading meat packers earned 1.9 per cent on equity in 1928 while forty-six minor meat packers earned 10.0 per cent. In 1964, leading packers earned 3.7 per cent while small packers earned 13.6 per cent.

[11]Ambrose Winston, "The Chimera of Monopoly," *The Atlantic Monthly* (1924), reprinted in *The Freeman* (Sept. 1960).

[12]The average rail rate fell from 19 mills per ton-mile to 7.5 mills.

[13]J. Cotlin, "Increased Corporation Antitrust Suits Prompt Industry Fears of New Federal Policy," *National Journal Reports,* Sept. 15, 1973, p. 1371.

[14]Steven Lustgarten, *Industrial Concentration and Inflation* (Washington: American Enterprise Institute for Public Policy Research, 1975), Table 2.

[15]Shirley Scheibla, "Monopoly the Villain," *Barron's,* Nov. 4, 1974, pp. 9, 18-20; "Economic Concentration: The Perennial Fall Guy," First National City Bank *Monthly Economic Letter,* April 1972.

[16]Sam Peltzman,"The Gains and Losses from Industrial Concentration," *Journal of Law & Economics,* vol. 20 (Oct. 1977).

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Paul Johnson

HAS CAPITALISM A FUTURE?

LET me begin by defining my terms. By "capitalism" I mean large-scale industrial capitalism, in which privately-financed publicly-quoted corporations, operating in a free market environment, and with the backup of the private enterprise money market, constitute the core of national economies. This is a pretty broad definition, but I think it will do.

Now the first thing to be noted is that this phenomenon is pretty recent. I would date it, in its earliest phase in England, only from the 1780s. It is thus less than 200 years old anywhere. As a widely-spread phenomenon, it is barely 100 years old. Seen against the grand perspective of history, capitalism is a newcomer. We now possess some knowledge of economic systems going back to the early centuries of the third millennium B. C. I could give you, for instance, an outline account of the economic structure of Egypt under the Old Kingdom, about 2700 B. C. Our knowledge of how civilised societies have organised their economic activities thus covers a stretch of more than 4600 years.

And in only about 200 of those years has industrial capitalism existed. Now the next point to note is the remarkable correlation between the emergence of industrial capitalism and the beginnings of really rapid economic growth.

Mr. Johnson, a British historian and author, is a former editor of *The New Statesman*, a leading academic socialist weekly. His recent break from what he calls the Fascist Left in Britain is explained in his book, *Enemies of Society*, reviewed in *The Freeman*, March 1978.

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Throughout most of history, growth rates, when we have the statistical evidence to measure them, have been low, nil or minus. A century of slow growth might be followed by a century of decline. Societies tended to get caught in the Malthusian Trap: that is, a period of slow growth led to an increase in population, the outstripping of food supplies, followed by a demographic catastrophe, and the beginning of a new cycle.

There were at least three economic "Dark Ages" in history, in which a sudden collapse of the wealth-making process led to the extinction, or virtual extinction, of civilised living, and the process of recovery was very slow and painful.

The last of these three Dark Ages extinguished Roman civilization in Western Europe, in the 5th Century A. D. It was not until the 13th century that equivalent living standards were again achieved—the recovery thus took 800 years. Society again fell into a Malthusian trap in the 14th century and again recovery was slow, though more sure this time, as intermediate technology spread more widely, and methods of handling and employing money became more sophisticated. Even by the first half of the 18th century, however, it was rare for even the most advanced economies, those of England and Holland, to achieve one per cent growth in any year. And there is a possibility (I myself would put it higher) that mankind would again have fallen into a Malthusian trap towards the end of the 18th century if industrial capitalism had not made its dramatic appearance.

And it *was* dramatic. By the beginning of the 1780s, in England, an unprecedented annual growth rate of two per cent had been achieved. During that decade, the two per cent was raised to four per cent. This was the great historic "lift off," and a four per cent annual compound growth rate was sustained for the next 50 years, on average. Since this English, and also Scottish, performance was accompanied by the export of capital, patents, machine tools and skilled manpower to several other advanced nations, the phenomenon soon became international.

Phenomenal Growth

I don't want to overburden you with figures, but some are necessary to indicate the magnitude of the change that industrial capitalism brought to human society. In Britain, for instance, in the 19th century, the size of the working population multiplied fourfold. Real wages doubled in the half-century 1800-1850, and doubled again, 1850-1900. This meant there was a 1600% increase in the production and consumption of wagegoods during the

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century. Nothing like this had happened anywhere before, in the whole of history. From the 1850s onward, in Belgium, France, Austria-Hungary, above all in Germany and the U.S., even higher growth rates were obtained; and feudal empires like Japan and Russia were able to telescope a development process which in Britain had stretched over centuries into a mere generation or two.

The growth rates of twelve leading capitalist countries averaged 2.7% a year over the whole 50-year period up to World War I. There was, it is true, a much more mixed performance between the wars. The U.S., for instance, which in the 44 years up to 1914 had averaged a phenomenal 4.3% growth rate, and which in the seven years up to 1929 had increased its national income by a staggering 40%, then saw its national income fall 38% in the mere four years 1929-32.

But following World War II, growth was resumed on an even more impressive scale. In the 1950s, for instance, the 12 leading capitalist economies cited before had an average annual growth of 4.2%. In Germany it was as high as an average of 7.6%. In all the West European economies, the rate of investment in the 1950s was half as high again as it had ever been on a sustained basis. In several such countries it was over 20% of the GNP; in Germany and the Netherlands it was 25%, in Norway even higher. Moreover, this high capital formation took place not at the cost of private consumption, but during a rapid and sustained rise in living standards, particularly of industrial workers. These tendencies were prolonged throughout the 1960s and into the 1970s. So far as the mature economies were concerned, the second industrial revolution, 1945-70, was entirely painless—and largely so even in Japan, where even higher investment and growth rates were sought, and obtained, to catch up with the U.S. and Europe.

The Key Was Capitalism

In short, after nearly five recorded millennia of floundering about, in relative or absolute poverty, humanity suddenly in the 1780s began to hit on the right formula: industrial capitalism. Consider the magnitude of the change over the last 200 years or less. We all know the wealth of present-day West Germany; all of us (I am sure) have seen it for ourselves. In the year 1800, in the whole of Germany there were less than 1000 people with annual incomes of 1000 dollars a year or more. Or again, take France. France now has more automobiles per capita even than Germany, and more second homes per family than any other country in Europe. In the 1780s, four/fifths of French families

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spent 90% of their incomes simply on buying bread—only bread—to stay alive.

Now I have said enough (I could say much more) to demonstrate that industrial capitalism, judged simply by its capacity to create wealth, and to distribute it, is a phenomenon unique in world history. It could be argued that it is the greatest single blessing ever bestowed on humanity. Why, then, am I giving a talk, not in any spirit of paradox either, called HAS CAPITALISM A FUTURE?

You may well ask. But I think we know the answer. I am giving it because capitalism is threatened, and we feel it to be threatened: the question is not academic. But before we go any further, I would like to clear up one important point. The idea has got around, and it is widely believed, especially among young people—and above all, alas, among young people who like to think they are well educated—that industrial capitalism is unpopular, and always has been. That is the work of a tiny, interested minority who have thrust it upon the reluctant mass of mankind.

Nothing, in fact, could be further from the truth. The storage economies of remote antiquity were often hideously unpopular. So was the slave-based economy, combined with corporatism, of the classical world. Agricultural feudalism was certainly unpopular; and mercantilism had to be enforced, in practice, by authoritarian states.

They Voted with Their Feet

But capitalism, industrial capitalism—no! From the very start it received the demonstrable approbation of the masses. They could not vote in the ballot box, but they voted in a far more positive and impressive manner, with their feet. And this for a simple reason. The poorest member of society values political freedom as much as the richest and the well educated—that is my belief. But the freedom he values most of all, the freedom which means most to him, is the freedom to sell his labour and skills in the open market. It was precisely *this* that industrial capitalism gave to men for the first time in history. Hence it is a profound error of fact, in my view, to see what Blake called the "dark, satanic mills" of the industrial revolution, as the enslavement of man.

The factory system, however harsh it may have been, was the road to freedom for millions of agricultural workers. Not only did it offer them an escape from rural poverty, which was deeper and more degrading than anything experienced in the cities, but it allowed them to move from status to contract, from a stationary place in a static society, with tied cottages and semi-

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conscript labour, to a mobile place in a dynamic one. That was why the common man voted for industrial capitalism with his feet, by tramping from the countryside to the towns, in enormous numbers, first in Britain, then throughout Europe. And tens of millions of European peasants, decade after decade, moved relentlessly across the Atlantic in pursuit of that same freedom, from semi-feudal estates and small holdings in Russia, Poland, Germany, Austria-Hungary, Italy, Ireland, Scandinavia, to the mines and factories and workshops of New York, Chicago, Pittsburgh, Cleveland, Detroit. It was the first time in history that really large numbers of ordinary people were given the chance to exercise a choice about their livelihood and destiny, and to move, not as a member of a tribe or a conscript soldier, but as free individuals, selling their labour in the open market.

A New Freedom

They voted for industrial capitalism with their feet not only because they felt in their bones that it meant a modest prosperity for their children and grandchildren—and on the whole they have been proved abundantly right—but because they knew it meant a new degree of freedom for themselves.

Indeed, the success of industrialisation, despite all its evils, continues to persuade countless ordinary men and women, all over the world, to escape the poverty and restraints of rural status-society and to enter the free labour markets of the towns. Hence the growth of the megalopolises all over the world—Calcutta and Bombay, Teheran and Caracas, Mexico City and Djakarta, Shanghai and Lagos, Cairo and Johannesburg; there are now literally scores of million-plus cities all over the Third World.

This never-ending one-way flow from countryside to city is plainly a voluntary mass choice, for most governments fear and resent it and many are attempting, sometimes savagely but always ineffectively, to halt or reverse it. It is more marked in the free market economies, but it is marked everywhere. Short of evacuating the cities by force and terror, as is now apparently being practiced in parts of southeast Asia, there is no way to stop this human flood. There seems to be an almost irresistible urge in human beings to move away from the status society to contractual individualism—the central feature of industrial capitalism. And this operates even in totalitarian societies, as witness the efforts, for instance, of the Chinese and Polish governments to limit the urban explosions they are experiencing.

Well, then, if industrial capitalism is both unique in its wealth-pro-

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ducing capacity, and also has the endorsement of a popular mandate, why is it under threat? And who is threatening it?

Losing the Intellectual and Moral Battle

Let me look at five principal elements. The first, and in some ways the most important, is that the free enterprise idea is losing, if it has not already lost, the intellectual and moral battle. Not long ago I went into Blackwell's, the great book shop at Oxford University. I wandered over the huge room which houses the books on politics and economics, and having been disagreeably surprised by what I saw there, I made a rough calculation. New books extolling the economic, social and moral virtues of Communism and collectivism—and there were literally hundreds and hundreds from all over the world—outnumbered books defending free enterprise, or merely seeking to take an objective view of the argument, by between five and six to one. Now this overwhelming predominance of collectivism was not due to any sinister policy on the part of Messrs. Blackwell's, which is a highly efficient capitalist enterprise. It was a marketing response to demand, on the part of students and teachers. And this was Oxford University, not one of the new slum universities of recent years, some of which have been virtually shanghaied by Marxist factions, but one of the free world's greatest centres of learning, where the battle of ideas is fought under the best possible conditions.

There can be no doubt that the intellectual and moral assault on free enterprise, and the exaltation of Marxist collectivism, which is such a striking feature of the 1970s, is directly related to the huge expansion of higher education, put through at such cost to the capitalist economies, in the 1960s. Now there is in this a huge and tragic irony. For in the 1950s, the decade when the university expansion was planned, it was the prevailing wisdom among the leading thinkers of the West, that the growth of higher education was directly productive of industrial growth—that the more university graduates we turned out, the faster the GNPs of the West would rise. This was the thesis outlined by President Clark Kerr of Berkeley, in his 1963 Godkin lectures at Harvard, and it was a thesis put forward, with immense effect in Britain, by Sir Charles, now Lord Snow. Kerr said: "What the railroads did for the second half of the last century, and the automobile for the first half of this century, may be done for the second half of the 20th century by the knowledge industry: that is, to serve as the focal point for national growth." And Kerr added that more graduates would not only

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mean a bigger GNP but act as a reinforcement for middle class democracy, with all its freedoms.

Anticapitalism

Now to speak of the "knowledge industry" was to ask for trouble. Knowledge is not a manufactured commodity. There is knowledge for good and knowledge for evil, as the Book of Genesis says. The 1960s, during which most Western nations doubled, and in some cases trebled, their university places, did not reinforce democratic freedoms, or enlarge the GNP or strengthen the free enterprise system. They produced the students' revolts, beginning in Paris in 1968; they detonated the Northern Ireland conflict, which is still harassing Britain. They produced the Baader-Meinhoff Gang in West Germany, the Red Brigade in Italy, the Left Fascist terrorism of Japan. They produced an enormous explosion of Marxist studies, centered around the social sciences and especially sociology and a new generation of university teachers and school teachers, dedicated by faith and by a sort of perverted religious piety, to the spread of Marxist ideas.

There are ironies within the general irony. Thus, the new university of the air, created in Britain at enormous expense to bring higher education to adults, and therefore christened the Open University, sometimes gives the impression that it has become a centre virtually closed to any teacher not of proven Marxist opinion. Nuffield College, Oxford, founded by that great capitalist pioneer, Lord Nuffield, who created the British automobile industry, has become a centre of trade union ideology, of the very ideas which, slowly but surely, are putting the British automobile industry out of world markets and out of business. Warwick University, created in the 1960s as a powerhouse of ideas and clever graduate executives for the West Midlands industrial complex, Britain's biggest, has often turned out Marxist and pseudo-Marxist agitators dedicated to the destruction of the wealth-producing machine which brought their university into existence.

I could go on. It is true, of course, that student unrest, as such, has quieted down. But the steady diffusion of ideas hostile to our free system continues remorselessly. Industrial capitalism, and the free market system, is presented as destructive of human happiness, corrupt, immoral, wasteful, inefficient and above all, doomed. Collectivism is presented as the only way out compatible with the dignity of the human spirit and the future of our race. The expanded university threatens to become not the powerhouse of Western individualism and enterprise, but its graveyard.

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The Ecological Panic

There is a second threat, what I call in my book the "Ecological Panic." Now this movement, again, began with the best intentions. I well remember when Rachel Carson's work, *The Silent Spring,* first appeared in *The New Yorker,* and the surprise and concern it rightly aroused. We were tending to ignore some of the destructive side effects of very rapid industrial expansion. The wave of concern that followed was justified, and the steps then taken, notably the clean air policies, and the policies for cleansing lakes and waterways have been spectacularly successful. Thanks to smokeless fuel, London fogs, which were real killers, have been virtually eliminated. The last really serious London fog was in 1952. The Thames is now cleaner, and has greater quantities of fish, and more varieties in it, than at any time since before the days of Spenser or Shakespeare. Similar successes are now being registered in the U.S., which adopted such legally enforceable remedies somewhat later than Britain did. These are examples of what can be done by thoughtful, unemotional, systematic and scientifically justified application of conservation and anti-pollution policies.

But most of these were put in hand before the ecological panic started. Once ecology became a fashionable good cause, as it did in the late 1960s, reason, logic and proportion flew out of the window. It became a campaign not against pollution, but against growth itself, and especially against free enterprise growth—totalitarian Communist growth was somehow less morally offensive. I beg those of you who have not already read it to get a copy of Professor Wilfred Beckerman's *In Defence of Economic Growth.* Beckerman is one of the best of our economists, and was a member of the Royal Commission on Environmental Pollution; he knows the subject better perhaps than any other working economist and his book is a wonderfully sane and lucid summary of the entire subject.

Substitutes for Religion

I have never yet been able to persuade any committed ecology campaigner even to look at this book. Of course not. They have a faith, and they do not want to risk it. One of the most important developments of our time (I would argue) is the growth, as a consequence of the rapid decline of Christianity, of irrationalist substitutes for it. These are not necessarily religious, or even quasi-religious. Often they are pseudoscientific in form, as for instance the weird philosophy of the late Teilhard de Chardin. The ecology panic is another example. It is akin to the salvation panic of 16th

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century Calvinism. As I say in my book, when you expel the priest, you do not inaugurate the age of reason—you get the witchdoctor. But whereas Calvinist salvation panic may have contributed to the rise of capitalism, the ecology panic could be the death of it.

If the restrictions now imposed on industrial development had operated in 18th century England, the industrial revolution could not have taken place. It would in effect have been inhibited by law—as of course many landowners of the day wished it to be—and in any event legal requirements would have eliminated the very modest profits by which it originally financed itself. We would still be existing at 18th century living standards, and wallowing in 18th century levels of pollution, which were infinitely worse than anything we experience today—if you want to see what they were like, visit the slums of Calcutta or Djakarta.

As it is, the ecology panic has been a potent destructive force. The panic mongers played a crucial role in persuading the Middle Eastern oil producers, especially Iran, to quadruple the price of oil in the autumn of 1973, the biggest single blow industrial capitalism has suffered since the Wall Street crash of 1929. That was the beginning of the profound recession from which we have not yet emerged. In the end, as was foreseeable at the time, the huge rise in oil prices did not do anyone any good, least of all the oil producers. But it ended the great postwar boom and robbed Western capitalism of its tremendous elan, perhaps for good. As Browning put it, "Never glad confident morning again." And it is significant that the ecological lobby is now striving desperately with fanatic vigor and persistence, to prevent the development of nuclear energy, allegedly on the grounds of safety.

Nuclear Power

Now it is a fact, a very remarkable fact in my view, that throughout the West (we have no figures for Russia or China) the nuclear power industry is the only industry, the *only* industry, which over 30 years has contrived to avoid a single fatal industrial accident. Its record is unique, and has been achieved by the efforts of the industry itself, and the responsible governments, without any assistance from the ecolobby. But of course they would *like* a few fatal accidents. That would suit their purposes very well.

In Britain recently, we had a long, public enquiry, what we call a statutory enquiry, into whether or not it was right to go ahead with the enriched uranium plant at Windscale. The enquiry was a model of its kind. The ecolobby marshalled all the scientific experts and evi-

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dence they could lay their hands on. At the end the verdict was that there was no reason whatever why the program should not proceed. Did the ecolobby accept the verdict? On the contrary. They immediately organised a mass demonstration, and are planning various legal and illegal activities to halt the program by force. Now it is notable that a leading figure in this campaign is the man who is perhaps Britain's leading Communist trade unionist, Mr. Arthur Scargill of the Mineworkers. He has never, so far as we know, campaigned against Soviet nuclear programs, peaceful or *otherwise*. But the mass of the movement, in the U.S., Britain, France, Germany, and Italy, so far as I have been able to observe, is not politically motivated. They are simply irrational: but irrationality is an enemy of civilised society, and it can be, and is being exploited by the politically interested.

The Growth of Government

A third factor in the future of capitalism is the growth of government. Let me put it this way. Industrial capitalism, or rather the free enterprise economy, and Big Government, are natural and probably irreconcilable enemies. It is no accident that the industrial revolution took place in late 18th century England. It was a period of minimum government. Of all the periods of English history, indeed of European history, it was the time when government was least conspicuous and active. It was the age, very short alas, of the Night Watchman state. As a matter of fact, the industrial revolution—perhaps the most important single event in human history—seems to have occurred without the English government even noticing. By the time they did it was too late; happily—otherwise they would probably have stopped it.

It is almost inevitable that government, particularly an active, interventionist government, should view free enterprise with a degree of hostility, since it constitutes a countervailing power in the state. The tendency, then, is to cut free enterprise down to size, and this may be done in a number of ways. In the U.S. the characteristic technique is government regulation and legal harassment, and this of course has been far more pervasive and strident since the ecolobby swung into action. In Britain the technique is both through direct assault—nationalization—and slow starvation. In a way, nationalization is ineffective, since it allows the public to make comparisons between the performance of the nationalized sector and that of the free sector—nearly always to the latter's advantage. Starvation is more insidious. By this I mean the progressive transfer, by taxation and other gov-

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ernment policies, of resources from the private to the public sector.

The Starvation Technique

In 1955, for instance, public expenditure in Britain as a proportion of GNP was just over forty per cent. By 1975, twenty years later, it has risen to nearly sixty per cent. Moreover, this rise was accompanied by a record budget deficit of about 22 billion dollars, itself a further 11½% of GNP. Of course, the taxation had to be provided, and the deficit serviced, by the private sector. We have, then, an Old Man of the Sea relationship, in which the parasitical Old Man is growing bigger, and poor Sinbad smaller, all the time. The shrinking productive sector has to carry the burden of an ever-expanding loss-making public sector. Thus Britain's nationalized steel industry will lose one billion dollars this year, and it has just been authorized by statute to borrow up to seven billion dollars, guaranteed by government and taxpayer. Now the interesting thing is that in Britain the public sector, and the civil service, generally, are now paying higher wages, providing better conditions, and giving larger pensions—which in a growing number of cases are index-linked, and so inflation-proof—than the private sector can possibly afford. And of course they are financing these goodies out of tax-guaranteed deficits—that is, from the dwindling profits of the private sector. This is what I call the starvation technique. When a private firm goes bust, provided it is big enough, the state takes over, the losses are added to the taxpayer's bill, and the private sector has one more expensive passenger to carry. This is the starvation method.

Trade Union Disruption

In this technique, the fourth factor, the trade unions, play an important part. In Britain it is *demonstrably* true that the legal privileges of the trade unions, which virtually exempt them from any kind of action for damages (including, now, libel), lead directly to restrictive practices, over-manning, low productivity, low investment, low wages and low profits. Thus trades union action tends, in itself, to undermine the performance of industrial capitalism as a wealth-creating system. In Britain, for instance, the trade unions can rightly claim that capitalism is inefficient, because they make sure it is inefficient. Ford workers in Britain, using exactly the same assembly line machinery as in West Germany, produce between 20% and 50% fewer automobiles. ICI chemicals, one of the best companies in Britain, nevertheless has a productivity performance 25% lower than its Dutch and German competitors. A recent

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analysis shows this is entirely due to over-manning and restrictive practices.

The private sector is now threatened by two further union devices: the legally-enforced closed shop, which compels the workforce to join designated unions on pain of dismissal without compensation or legal redress; and new plans to force firms to appoint up to 50% worker directors, these worker directors to be appointed not by the work force themselves, nor even necessarily from among them, but by and from the trade union bureaucracy (Bullock Report). This has to be seen against the explicit policy of some groups within the unions of driving private sector firms to bankruptcy, by strikes and harassment, so that the state will then have to take them into the public sector.

Follow the Leader?

Of course I don't want to make your flesh creep by arguing that what is happening in Britain will necessarily happen elsewhere. But certainly if the bill now before the Senate giving unions much wider and more effective powers to organize goes through, the U.S. will be well launched on the road we have travelled; and I may say there are many other ways in which the present U.S. administration seemed determined to follow Britain's example. The West Germans, too, are now beginning to adopt some of the institutions which flourish in British trades unionism, notably the shop stewards' movement. Businessmen all over the free world may despise the performance of British industry, but trades unionists all over the world admire and envy the power of British trades unionists and are actively seeking to acquire it for themselves.

The Communist Threat

Let me end on a word of warning. I have said nothing of the fifth threat on industrial capitalism and the free enterprise system—the threat from without. But of course this is bound to increase as the military superiority of the Soviet Union over the U.S. is reinforced. I have never thought that the Communist system would triumph by a direct assault. I have always assumed that it would first establish an overwhelming military predominance and then, by pressure and threats, begin to draw the political and economic dividends of it. If the U.S. opts out of the competitive arms race with the Soviet Union, while providing, as she supposes, merely for her own defence, then we must expect to see this fifth threat hard at work winding up industrial capitalism and free enterprise all over the world.

Thus, when we ask HAS CAPITALISM A FUTURE? I answer: it all depends on the U.S. West Ger-

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many and Japan, it is true, have strong free enterprise economies; they also have a tradition of state capitalism, and would adapt themselves with surprising speed and readiness to a new collective order. France already has a huge public sector and a long tradition of dirigisme or etatisme. All three are Janus-faced. Britain, I believe, is profoundly anti-collective and will remain so if it continues to be given the choice. But its private enterprise system is now very weak, and its business and financial elites are demoralised and defeatist.

Is there demoralisation, is there defeatism, on this side of the Atlantic? You can answer that question better than I can. I myself think that capitalism will survive, because of its enormous intrinsic virtues as a system for generating wealth, and promoting freedom. But those who man and control it must stop apologizing and go onto the ideological offensive. They must show to ordinary people that both the Communist world, and the third world, are parasitical upon industrial capitalism for their growth technology. That without capitalism, the 200 years of unprecedented growth which have created the modern world, would gradually come to an end. We would have slow growth, then nil growth, then minus growth; and then the Malthusian catastrophe.

In short, those who wish to maintain the capitalist system must endeavour to teach the world a little history, and remind it, and especially the young, that though man's achievements are great they are never as solid as they look. If man makes the wrong choice, there is always another Dark Age waiting for him round the corner of time.

IDEAS ON LIBERTY

A Self-Sustaining Population

A SYSTEM for the support of indigent persons in the United States was never contemplated by the authors of the Constitution; nor can any good reason be advanced why, as a permanent establishment, it should be founded for one class or color of our people more than another. Pending the war many refugees and freedmen received support from the Government, but it was never intended that they should thenceforth be fed, clothed, educated, and sheltered by the United States. The idea on which the slaves were assisted to freedom was that on becoming free they would be a self-sustaining population. Any legislation that shall imply that they are not expected to attain a self-sustaining condition must have a tendency injurious alike to their character and their prospects.

ANDREW JOHNSON

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In Defense of States' Rights

STATES' RIGHTS are usually associated with the name of Thomas Jefferson, who distrusted the centralizing tendencies that eventually put his favored yeoman farmer at the mercy of big cities. But Jefferson himself, when he was entrusted with the presidency of the newly federated republic, did more to hurt his doctrine than he did to help it.

The whole story is encrusted with a tremendous irony—and there were two Virginians of Jefferson's day who caught the irony even as the drama was being played out. One of the mordantly skeptical Virginians was John Randolph of Roanoke; the other was John Taylor of Caroline. Randolph is the subject of Russell Kirk's *John Randolph of Roanoke: A Study in American Politics,* which has just been issued in a new edition with an enlarged appendices collection of letters and speeches. Taylor, a slightly less acidulous figure than Randolph, is treated as "a Virginia Cato" in a short but pertinent biographical introduction provided by M. E. Bradford for a new edition of Taylor's *Arator.*

As members of the Tertium Quids, or Old Republicans, both Randolph and Taylor believed that the federal Constitution was "a law to limit law." As the strictest of strict constructionists, they were made uncomfortable by the behavior of the Virginia Dynasty—Jefferson, Madison, Monroe—in the era that included a stupid second war with Great Britain and the beginnings of the opening of the West.

The Louisiana Purchase, which endowed the young American re-

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public with a huge trans-Mississippi area reaching well towards the Pacific Northwest, had no validating warrant in the Constitution, but Jefferson could not resist the opportunity for a glittering deal—and there are probably few today who would condemn him for his subordination of strict constructionist purity to an enlightened expediency. In the only act of his political career that might be termed an inconsistency, John Randolph of Roanoke defended Jefferson's purchase in the House of Representatives. Later, Randolph admitted the purchase was a severe blow to constitutional precedent. It helped establish the "imperial presidency."

Foreign Entanglements

Kirk is inclined to excuse Randolph for what could be called his one serious departure from principle. Part of Randolph's program as a Tertium Quid leader was to keep America aloof from foreign quarrels. By getting control of the mouth of the Mississippi through the Louisiana Purchase, Jefferson removed a dangerous foreign neighbor who might otherwise have menaced Kentucky, Tennessee and the territory north of the Ohio. So it could be said that the Purchase was a guarantee that the "good old thirteen United States" (Randolph's phrase) east of the Appalachians would not have to maintain a big military force to defend Western lands. This would be a plus towards keeping the central government weak and so help the States' Rights cause.

John Randolph of Roanoke: A Study in American Politics by Russell Kirk, 588 pages. $9.00 hardcover; $3.50 paperback.
Arator by John Taylor Edited and with an introduction by M. E. Bradford, 385 pages, $9.00 hardcover; $3.00 paperback. Both of these books are published by and may be ordered directly from Liberty Press/Liberty Classics 7440 North Shadeland Indianapolis, Indiana 46250

Whether sophistical or not, the argument did nothing to keep Jefferson and Madison from becoming embroiled in the foreign quarrels of the Napoleonic period. Not content with the new Louisiana territories, the War Hawks of 1812 thought of seizing Canada. Always logical, John Randolph sided with the New England states in opposing both the Jefferson Embargo and the War of 1812 itself. Before the Embargo and the war, maritime Massachusetts and the agricultural south still maintained something of a reciprocal relationship. The farmers could

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sell abroad and use the money they received to purchase goods brought to America in Massachusetts ships. But with the coming of the war, the fledgling United States felt really impelled to take Alexander Hamilton's advice and subsidize local manufacturers. The cost of the subsidy, paid for by tariffs, had necessarily to be taken out of the agricultural interest in higher prices.

Agricultural Decline in the Early Nineteenth Century

Even before the triumph of Hamilton both Randolph and Taylor knew what was coming. Taylor's *Arator* quotes liberally from an English visitor named Strickland, who noticed as early as 1801 that the plantation system of Virginia was in a visible state of decay. The old houses in the tidewater country were falling apart. "Before the revolution," said Strickland, "the capital of the country was vested in the lands, and the landed proprietors held the first rank in the country for opulence and information, and in general received the best education which America, and not unfrequently, Europe, could afford them." But by 1801 capital was "flying from the fields, to the legal monopolies, banking and manufacturing . . . bribes offered to . . . deserters have already produced the most ruinous consequences. Avarice everywhere seizes them with avidity, and rails at agriculture, as sordid and unpatriotic. . . ."

Randolph was inclined to put the blame for agricultural decay on the Jeffersonian repeal of the laws of primogeniture and entail, which had historically kept big plantations under the control of favored eldest sons. Taylor, though he blamed the Hamiltonian spirit for the decline of the planter class, was realistic enough to note the failure of the big planters to restore fertility, by scientific manuring, to lands worn out by excessive reliance on the cash crop of tobacco. Much of his *Arator* is given over to a learned discussion of proper manuring.

The spirit of the times, of course, was against the Tertium Quid philosophy. The West, with its untried fields, beckoned to both elder and younger sons. With or without the War of 1812, the United States, with its plethora of natural resources, would have become the home of modern industry. The tariff often distorted the pattern of growth—but even without a subsidy the Americans would have built factories to utilize Minnesota iron ore and Pennsylvania coking coal.

Weakening the Constitution

Neither Randolph nor Taylor liked slavery. But they insisted that the Constitution—the "law to limit law"—made a centrally directed emancipation of slaves illegal. The

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Civil War, which came as firebrands elaborated on the Randolph-Taylor strict construction principles, ended in disaster for everything that Randolph held dear. Emancipation did not result in a bloody uprising, as Randolph and Taylor feared it would. But the decline of States' rights has had its many deleterious results as Randolph predicted.

The loose construction of the Constitution that was started by Jefferson's decision to buy the Louisiana territory has extended to the most tortuous twisting of the Commerce and General Welfare clauses to justify practically anything that a centralized Washington government desires to do. If the strict constructionists had been followed, our welfare bureaucracy would never have become entrenched. Nor would our gas deregulators have dared tell Texas and Oklahoma what they must do with gas inside their own borders.

It is sad that the slavery issue distorted everything. For, as Russell Kirk says, quoting Randolph, "change is not reform." Not in all cases anyway.

THE CRITICS OF KEYNESIAN ECONOMICS
by Henry Hazlitt
(Arlington House, New Rochelle, N.Y. 10801)
427 pages ■ $11.00

Reviewed by Ronald J. Berkhimer

KEYNES wrote *The General Theory of Employment, Interest and Money* in 1936. It was a difficult book, confusing and even sometimes contradictory, but its central message was clear: The solution to unemployment and depression is increased government spending.

Such a theory is irresistible to most politicians and Keynesianism achieved widespread acceptance, providing a rationale for the New Deal. The Keynesian program failed to solve the United States unemployment problem in the thirties, but the theory was the basis for the Full Employment Act of 1946 and, despite increasing criticism, it still surfaces in efforts like the Humphrey-Hawkins bill.

The ultimate refutation of Keynesianism may be Henry Hazlitt's *The Failure of the New Economics* (1959). But, as a byproduct of the research which preceded his writing that book, Hazlitt has come out with some excellent supplementary reading in his companion

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volume, *The Critics of Keynesian Economics*. First published in 1960, it has been reprinted with a new preface and made an alternative Conservative Book Club selection.

Hazlitt has collected criticism of Keynesianism by twenty-two writers, including some of the best known free market economists. It is fortunate that their comments are thus saved for current students and for history, because each has something instructive to say about the theories which have created more furor than anything since Marx—to borrow an expression from one of them. There is considerable range in the rigor of these analyses, and both the lay reader and serious student of economics will find articles at their level of understanding.

Contributors to this volume are men like Mises, Hayek, Roepke, Rueff, Knight and Hahn. When they are done, Keynes' theory is in complete disarray. Even so, Keynes still has his advocates, for as Mises ruefully observes, "There is no use arguing with people who are driven by an almost religious fervor and believe that their master had the Revelation."

But the general public is gradually becoming aware that years of deficit budgets have not created "full employment" and that unemployment, distressing as it is, affects relatively few people, while inflation hurts everyone.

A bill requiring the federal budget to be balanced by the year 1981 was even passed by the Senate this summer. While this may have been temporizing, a similar proposal involving a constitutional amendment has currently been passed by twenty-two state legislatures and needs only twelve more to bypass Congress and the President and bring the amendment back to the legislatures for final approval.

If and when this happens, it will perhaps be the most significant development in political economics since *The Wealth of Nations* appeared two hundred years ago, and Keynesianism will be officially dead, at least in the United States.

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